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ABSTRACT

Changes in higher education employee benefit plans brought about by the extension of the mandatory retirement age to 70 are the focus of the monograph. Chapter one summarizes the volume and presents some major recommendations that institutions may find helpful in benefit and personnel planning. Chapter two sketches the meaning of the new law (1978 Amendments to the Age Discrimination in Employment Act). A brief statement of some considerations on cost and related implications for both employees and institutions is presented in chapter three. The fourth chapter discusses the need for setting a pre-70 retirement age and explains the concept of a "full service benefit" age. Early retirement, including alternative approaches, are explored in chapter five, which also cautions institutions on certain legal aspects of early retirement benefit arrangements. The final chapter reports on special issues in personnel planning. Appendices summarize the survey research, elaborate on the effects of postponed retirement on retirement income, and provide a sample procedure for determining staff age structures, age specific separation rates, and early retirement arrangement cost estimation. An annotated bibliography is also appended. (Author/PHR)

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Another Challenge

Age 70 retirement in higher education

Hans H. Jenny / Peggy Heim / Geoffrey C. Hughes

HE 011 755

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Preface

Executives at Teachers Insurance and Annuity Association (TIAA) reacted to the Congressional intent to enact legislation prohibiting mandatory retirement before age 70 by making plans for a study on some of the effects on employee benefit arrangements. This monograph on a diverse set of implications of the law on colleges and universities resulted from those early plans.

This project was supported by TIAA and by grants from the Alfred P. Sloan Foundation, the Lilly Endowment, Inc., and the EXXON Education Foundation. TIAA-CREF officers — too numerous to mention individually — gave their time generously to discuss the law and regulations, to provide data and explanations, and to comment on successive drafts. Other readers, especially Laura Bornholdt of the Lilly Endowment, and Howard Bowen who serves on the TIAA-CREF Research Advisory Committee, offered their insights and suggestions. We appreciate the support and encouragement received from this group of individuals and organizations.

The new legislation is deceptive in that it appears to have a narrow focus: the extension of mandatory retirement to age 70 and the resulting changes in employee benefits. But the timing of this new mandate causes the potential repercussions to go far beyond the mere technicalities and the primary objectives of the new legislation.

Higher education is entering a period of considerable uncertainty and change. The prospect of declining undergraduate enrollments and the attendant decline in demand for personnel, particularly among faculties, is receiving widespread attention. Viewed in this broad context, the new legislation raises a host of issues, some of which we touch at least briefly.

Chapter One summarizes the volume and presents a few major recommendations which institutions may find helpful in benefit and personnel planning. Chapter Two sketches the meaning of the new law. This is followed in Chapter Three by a brief statement of some considerations on cost and related implications for both institutions and employees. Chapter Four focuses on the need for setting a pre-70 retirement age and explains the concept of a "full service benefit" age. Chapter Five dwells at length on the topic of early retirement, describes alternate approaches, and cautions institutions on certain legal aspects of early retirement benefit arrangements. Chapter Six takes up a few special issues in personnel planning. Finally, Appendix I summarizes our survey research including a pilot study undertaken at one institution to determine faculty attitudes about retirement. Appendix II elaborates on the Chapter Three treatment of the effects of postponed retirement on retirement income. And Appendix III provides a sample procedure for determining staff age structures, age specific separation rates, and early retirement arrangement cost estimation.

One of the objectives for this study was to contact college and university administrators in order to gain an impression of their views on the new legal requirements. We conducted a survey during the summer of 1978, and obtained a variety of responses (see Appendix I). Little time had elapsed between the enactment of the amendments and our requests for information,

and we caught many administrators unprepared. Their answers were sometimes less complete than they might have been a few months later.

This survey provides some useful insights, albeit nothing very startling. An impression which may stem from the authors' bias lingers to this day, however; we were surprised to realize how few of the respondents had readily available information on the age distribution of their personnel. We are thankful for the liberal assistance we received from so many administrators whose special effort provided us with such data.

Many individuals provided data, ideas, and recommendations on subject matter to be either included or left out. In discarding often extremely helpful data and materials we took care not to ignore essential information. Our files now contain much basic material that at some future time might become the foundation for additional studies on retirement and employee benefit planning.

A second objective was to provide an interpretation of the new legislation that could serve a broad and diverse readership. We expect the latter to include lay persons as well as professionals, college and university administrators (particularly presidents, provosts, deans, finance and personnel officers) as well as employees (especially faculty members and older persons) interested in planning properly for their retirement. We have tried to stay away from technical details, but may not have been able to prevent jargon from appearing in the text here and there. We trust that our decision to speak to a broad audience has enhanced rather than diluted our attempt to advance each group's understanding of the subject.

Mary Ann Acton and Arthur Palmer merit special attention for their assistance on a variety of projects within this study, as does Professor Henry Loess of The College of Wooster for his work on the pilot study. We are grateful for their contributions.

We also owe a debt of gratitude to The College of Wooster staff who prepared and proofread numerous versions of the text and tables. The group includes Lillian Bamberger, Gladys Barz, Mary Lou Birk, Suzanne Fischer, members of secretarial services, and Rodney Williams, the Director of Publications. In New York, Barbara Fox helped with editorial changes and carried many of the administrative burdens at the TIAA end. We offer our sincere appreciation to all.

Hans H. Jenny
Peggy Heim
Geoffrey C. Hughes

Rowsburg, Ohio, July 1979

I. SUMMARY AND CONCLUSIONS: THE AADEA AND HIGHER EDUCATION

The central provision in the *1978 Amendments to the Age Discrimination in Employment Act* (AADEA) raises the minimum age for mandatory retirement from 65 to 70. The law also requires the review and amendment of all employee benefit plans to the extent to which they are not already in compliance.

Standing alone, the AADEA do not seem to impose a particularly onerous burden on higher education. Unfortunately, they do not stand alone. Other federal legislation, the current economic climate, and certain demographic prospects combine to make the potential impact generally more significant. The effect for certain institutions may turn out to be damaging.

The AADEA are one example among many of recent legislation affecting higher education in significant and sometimes contradictory ways. The Civil Rights Act, equal pay legislation, the Employee Retirement Income Security Act (ERISA), and recent changes in the Social Security Act are examples of laws that interact with the AADEA directly and indirectly. As institutions are trying to understand and implement the AADEA, a number of major problems and issues come to light which go well beyond the normal adjustments required by the specific legislation.

One frequently voiced concern about the AADEA, for example, is that the law may inhibit progress toward affirmative action goals in some circumstances. If older employees decide to work longer, fewer job openings may become available than were anticipated earlier. And job openings are a prerequisite for increasing significantly the proportion of women and minority staff members.

Colleges and universities entering the 1980s with a shrinking pool of applicants may encounter serious financial difficulties. Even the most optimistic aggregate projections show declining student enrollments throughout the 1980s, and while the impact on colleges and universities will not be uniform, the combination of demographic forces and the panoply of new laws including the AADEA will bring hardships to some institutions.

The general economic climate of recent years also works in concert with the AADEA. The law comes at a time when inflation is persistently wreaking havoc on institutional as well as on employee budgets. Therefore, many employees may decide that they must work a few more years in order to build up adequate retirement incomes capable of withstanding the inflationary onslaught. At the same time, colleges and universities will not be able to trim their payrolls through the normal attrition that occurred when the bulk of retirements happened between ages 62 and 65.

Even without the impact of inflation, the AADEA may bring about changes in employee attitudes on when to retire. A special pilot study undertaken for this monograph discloses that younger faculty members at one college expect to retire earlier than the older respondents who appear to indicate that they may have to work longer than they prefer. To the extent to which

later retirement is a faculty preference, the AADEA have a distinct impact on retirement practice, all the other influences already mentioned aside.

A major thesis of this essay is that the AADEA are but one element among a complex set of forces and that the new law often is but a minor contributor to institutional difficulties whose primary causes originate elsewhere. The new law and the other circumstances mentioned above can represent, where they occur together, a powerful force for mischief. But blaming the problem on the AADEA alone, as has happened in testimony and some recent literature, is like putting the sole blame for an explosion on the match.

Although higher education's posture toward the AADEA is largely negative, the positive side is worth considering. First, many older persons are fully capable of working beyond age 65. Older persons enrich a work force as much as younger ones. No convincing evidence exists that older persons generally lose their capacity for productive employment once they ford the magic pre-AADEA retirement threshold. Second, while we are aware of many exceptions, the state of college and university personnel planning is generally in serious need of improvement. The AADEA provide several opportunities for a fundamental review of objectives, procedures, and programs.

This monograph examines the AADEA alone and in relation to some of the many external forces confronting higher education during the 1980s. Our study leads us to the conclusion that in many institutions the state of the art in personnel planning is inadequate for coping with the complexities of the problem. The AADEA can become the catalyst provoking employers into developing the necessary information bases and adequate long-range plans enabling them to respond constructively to changing demographic and economic conditions.

The new law affects individual institutions in different ways. The broad demographic and economic tendencies do not apply uniformly to all of higher education. And, institutions differ in how much of an adjustment they must make in the retirement age. Some must move from a former age 65 to the new age 70 limit. Others with later pre-AADEA retirement age limits face a more modest change or none at all. The specific impact of the AADEA depends to a large extent on how the demand for college and university services develops. Aggregate enrollment trends influence all of higher education, but the specific effects vary by types of institutions, their location, and their present and evolving enrollment mix.

Most of the discussion to date links the AADEA with faculty personnel planning. This connection is appropriate for many reasons, but the law applies to all college and university personnel. The prohibition against age discrimination in the benefit area is effective January 1, 1979, for all continuing employees age 65 to 70 without regard to tenure status.

1. Major Considerations and Recommendations

The AADEA raise questions about the total staff planning, and institutions may need to develop new strategies in long-range personnel management. Specific requirements may differ by types of institutions and by how individual colleges and universities are affected by changing circumstances. The considerations and recommendations focus on broad issues in contrast to particular or even exceptional conditions.

We group the comments under four principal topics which we explore more fully in the separate chapters that follow. The topics are:

a. Implementation of the AADEA and of the Department of Labor/Equal Employment Opportunity Commission regulations.

b. Review of the basic retirement program with special reference to retirement income levels at a pre-age-70 normal or full-service retirement age.

c. Exploration of Incentive Early Retirement (IERt) as a possible policy option.

d. Adoption of procedures for retirement preparation, pre-retirement counseling, and long-range staff development planning.

The following summaries address themselves to each topic.

a. *Implementation of the AADEA*

Chapter Two describes the major compliance steps colleges and universities take under the AADEA. An employer cannot discriminate against an individual (between the protected ages of 40 to 70) for reasons of the person's age in hiring, discharge, compensation, terms, conditions, or privileges of employment. Terms and conditions of employment include employee benefits. The law requires that employment policies for non-tenured personnel be amended effective January 1, 1979, raising the involuntary retirement age to 70. For employees "serving under a contract of unlimited tenure," the mandatory retirement age must be in compliance by July 1, 1982.[1]

The law and the regulations permit certain benefit reductions for older employees, and institutions should establish precise policies in this respect. The regulations spell out rather clearly several types of benefit reduction. One concerns the cessation of retirement benefit contributions or accrual after an employee reaches the so-called "normal" retirement age. Another pertains to life insurance benefits. An employer can reduce the amount of coverage within limits of demonstrable actuarially significant cost differences. The regulations also offer guidelines covering long-term disability and medical coverage.

An institution should not extend existing benefits automatically if it believes that it eventually may wish to reduce permissible benefits. Increasing the benefits at some future time is easier than reducing them for employees who expect existing policy to prevail. By now, most institutions may have made their short or long-term choices. The savings involved in benefit reductions appear to be relatively modest except for institutions where the number of older workers is very large.

b. *The Need for a Pre-70 "Normal" Retirement Age*

The new AADEA mandatory retirement age threshold, and the prospect of the eventual removal of any specific retirement age ceilings, should prompt institutions to consider maintaining or establishing some pre-70 "normal" retirement age. Another reason why this may be desirable has already been mentioned: the "normal" retirement age determines when an employer may begin to reduce certain employee benefits.

But there exists a far more fundamental reason why a pre-70 normal retirement age becomes important. It centers on the question of what age should be used in setting specific retirement income objectives under the basic retirement plan. If retirement is not kept economically attractive or viable at some age prior to the mandatory retirement age, the only alternative open to many people will be to hang in there until mandatory age 70 or beyond.

The former predominant age 65 retirement limit would presumably make an appropriate "normal" or "full service benefit" age limit for most institutions and perhaps for most basic retirement plans. But pre-AADEA normal retirement ages differ among plans, and so do basic retirement plan contribution arrangements. Until institutions analyze future retirement income prospects under their existing basic plans, they may not know exactly which "normal" age base to choose. Who sets the adequacy standards, and how such standards compare to minimum norms recommended by such organizations as the AAUP, the AAC, and TIAA are also important considerations.

The AADEA do not preclude institutions from reducing retirement plan contributions for all participants while extending coverage through age 70. Those considering such an approach should first study the probable effects of postponed retirements on future staffing requirements.

The lower contributions would tend to discourage earlier retirement and force employees to stay on the job longer than they themselves prefer. Thus the decision to reduce retirement plan contributions but to pay them over a larger number of years may compound institutional problems in the future.

c. *Incentive Early Retirement (IERt)*

IERt is a complex policy option. An institution should not consider IERt in the absence of a carefully developed long-range staffing plan.

The chief advantage of IERt is that it can help accelerate staff attrition within a specific group of eligible employees, thus creating some financial and staffing flexibility for an institution. Every termination provides the institution with a choice: to fill the position with "new blood," or leave it vacant in order to save money or to accomplish some other purpose. Either choice has its appeal depending on the institution's circumstances at the time the opening occurs. IERt can increase the number of openings.

One of the disadvantages of IERt is that the institution cannot control who within the eligible group will choose to retire early. The risk of losing highly valued senior staff is inherent in any IERt plan. Also, the essentially voluntary nature of IERt weakens an institution's ability to implement retirements where they are most needed. Even the timing of IERt is uncertain. Finally, because the proportion of faculty age 55 and older is relatively small throughout higher education today, IERt cannot be considered a primary solution for the highly publicized emerging decline in openings for higher education professional personnel. Nevertheless, to the extent to which it facilitates the achievement of institutional objectives in education, personnel, and finance, IERt can be a useful policy option.

A primary consideration for colleges and universities is whether they can afford entering into IERt arrangements. The answer is that most of the specific options described in Chapter Five save institutions money compared to the continuing employment of the workers in question. The savings are greatest when employees who avail themselves of IERt opportunities need not be replaced. The savings become smaller, may disappear entirely, or costs may increase to the extent to which replacements occur. Careful long-range planning is necessary for determining in advance the potential cost impact of specific IERt options. Enrollment and other uncertainties may be persuasive reasons to introduce IERt for a limited number of years, subject to review and possible renewal. In this way long-range financial risks might be considerably less than in an open-ended IERt plan.

Legal concerns about IERt loom on two fronts. The first centers on ERISA requirements and the second involves the Internal Revenue Service (IRS) regulations on the meaning and taxation of deferred income. Institutions with established IERt programs and those considering new IERt plans should consult legal counsel and their employee benefit plan advisors in order to ascertain that the programs are in compliance, and that employees understand the tax consequences of specific options. Some schools may have to amend their current IERt arrangements, but opportunities for inducements exist within the ERISA framework and IRS regulations.

A significant cost impact could occur from the ERISA requirement that certain IERt benefits be funded in advance. This requirement — which does not arise for all IERt options — would probably preclude their widespread use.

d. *Retirement Preparation and Long-Range Staff Planning*

Information about employee attitudes toward retirement is important for sound long-range personnel planning, as well as for designing appropriate IERt programs. One way is to gather appropriate information in conjunction with programs for retirement preparation.

Strong evidence suggests that voluntary, peer group retirement preparation programs work

best. These programs should focus on the post-retirement needs of employees. They should begin early enough to allow adequate time for pre-retirement planning by employees so that actions taken by them or by institutions can fully evolve by the time a retirement decision is to be made. Long-range retirement income planning is the foremost topic of interest to participants.

Other topics of interest to prospective retirees include health care, legal affairs, and housing. Among the more general concerns are how best to use the retirement years, and how to adjust to new living conditions and to new environments.

The requirements of sound personnel planning, however, go beyond the information available through voluntary employee-centered retirement preparation programs. Since these programs tend to be concerned with personal needs, institutions should rely on their own surveys and special studies specifically designed to meet the information requirements of a sound planning system.

When this study began about a year ago, we discovered an apparent widespread information gap: few institutions had readily available information on staff age structures and even less often an understanding of historical staff attrition patterns. Although past attrition rates may not be repeated in tomorrow's higher education environment, knowledge of age-specific staff separation rates is an important ingredient in long-range staff planning. To undertake any significant steps toward implementing IERt programs without such information is risky. Appendix III describes in considerable detail the phenomenon of age-specific separation rates and provides illustrations of how IERt might influence staff size and institutional budgets.

2. Related Considerations and Conclusion

We note in Chapter Six that the AADEA are prompting discussions of a host of personnel policy issues which exist to a large extent independently of the new law. The AADEA will no doubt cause the postponement of faculty and other personnel retirements. To assert that they will be a major contributor to impending institutional troubles even when rather stark enrollment and economic scenarios are being postulated may be an exaggeration.

It may be useful to distinguish between the transition from pre-AADEA practice and the eventual normalcy under the new law. During the transition period a change in attitudes and expectations will occur both among employers and employees. Some changes in employee benefit programs and personnel policy may also come about. Eventually, attitudes and expectations will begin to focus on the new rules of the game. This natural evolution will have an impact on long-range personnel planning. The AADEA are an important catalyst in calling attention to broader and long-range personnel policy issues.

In the emerging higher education environment there exists a high probability that in the aggregate at least the demand for higher education personnel may decline. The AADEA make matters worse to the extent to which they lead to postponed retirements. How much worse, however, depends on how many retirements will be postponed. Because the number of postponements may not be very large, the source of the problem must be found elsewhere. The factors combining to cause emerging staff pressures are — in order of importance — declining student enrollments, existing staff structures and age distribution, and the AADEA. The available information suggests that the first two will hold the key to the puzzle.

A number of options are emerging in the area of long-range personnel planning, specifically in response to any possible excess in personnel. Prominent among these are second career choices, personnel development with special emphasis on the training and retraining of faculty and administrative staff, and new techniques in performance evaluation. These policy options are receiving increasing attention, and some observers go so far as to suggest that they must be considered in direct response to the AADEA.

During the transition period, these broad policy opportunities do not seem to be very promising. The development of procedures and expertise by institutions make these at best long-range options. Institutions should regard them as long-range personnel planning and policy issues after the AADEA have been assimilated. Colleges and universities should strengthen their capabilities in these areas, especially in employee performance evaluation which can serve a variety of personnel management functions. Appropriate evaluation becomes essential under the AADEA if colleges and universities decide to terminate the employment of older workers before they reach age 70.

Each college and university which has not done so already should begin to study carefully how its future personnel requirements might evolve. The uncertainty about emerging demand patterns should guide institutions to develop staffing models for more than one scenario. In particular, they should estimate future personnel requirements under alternate enrollment projections. In this fashion they may be able to estimate how much of the staffing problem results from the AADEA. And this in turn may help focus attention on how much, if any part, of the solution might come from IERt and proper pre-retirement counseling, and on how much of it might come from personnel development leading to new skills or even to second careers within or outside of higher education.

Within the more immediate scope of the AADEA, we believe that careful attention to designing adequate basic retirement plans and a cautious use of IERt programs may go a long way toward alleviating the direct impact of the new legislation. The other personnel development and evaluation strategies can complement the retirement policy while the institution builds a more comprehensive long-range planning and management system. Eventually, the burden for measuring success or failure in personnel planning is on that system and not on the AADEA.

Footnotes

1. The AADEA use the phrase "serving under a contract of unlimited tenure" to describe the group of employees who are exempt from the age 70 retirement provision until July 1, 1982. The term "unlimited tenure" is not defined in the Act. The regulations proposed December 12, 1978, assume the widely accepted definition of "tenure," and regard "unlimited" as a modifier. A tenure contract limited to a specific term, therefore, does not seem to meet the requirements of the exemption.

II. THE LAW AND ITS MEANING

This chapter summarizes the basic provisions of the AADEA, describes the major regulations and identifies some of the reasons why uncertainty may exist for some time into the future on the precise meaning of the new legislation. The description of the regulations affecting specific employee benefits includes a discussion of some of the direct cost implications inherent in the law. The final sections touch on some of the effects of the law and regulations on an institution's salary and Social Security budgets.

1. General Compliance Requirements[1]

An employer cannot discriminate against a 40 to 70 year old individual for reasons of age in compensation, terms, conditions, or privileges of employment. This comprehensive rule governs age discrimination in such employment conditions as sabbatical leaves, staff development leaves, educational benefits, funds to attend professional meetings, research and secretarial assistance, office space and access to laboratories, as well as salary increases and promotion. The AADEA mandate that all employee benefit plans and employment policies had to be amended by January 1, 1979, raising the involuntary retirement age to at least 70 for all non-tenured personnel. This provision applies whether the plans and policies are contained in written documents or accepted as *de facto* rules. Employers intending to keep an age below 70 as the "normal" retirement age must add an affirmative disclaimer informing the employees that mandatory retirement, if any, will not occur before age 70.

The mandatory retirement age change does not become effective for employees with unlimited tenure until July 1, 1982. Employers must amend all pertinent documents no later than this date. The tenured employee exemption applies only to the area of mandatory retirement. Tenured employees who extend their service beyond age 65 must receive the same treatment as other employees in compensation, terms, conditions, and privileges of employment until the employees reach age 70.

All pension, life insurance, medical, disability, and other plans must be carefully reviewed with respect to employee benefit entitlement (see section 5 for details). The review of such entitlement in most instances involves the active participation of the employees. Even where non-tenured personnel are not unionized, personnel policy is seldom any longer promulgated from on high on a take-it-or-leave-it basis. Rather we should expect employees to have their say on how the entitlement question is answered. The amendment process within the law appears to be a matter of internal institutional employee relations policy.

Under the National Labor Relations Act (NLRA), benefit changes for employees covered by collective bargaining contracts are themselves subject to collective bargaining. Affected employees must be so advised. Changes in employee benefit plans must be added to the ERISA Summary (Benefit) Plan Description which is distributed to all covered college and university personnel.

Colleges and universities may establish a special policy with respect to those high level executives that fall within the law's special exemption (see section 2 below). While the law permits high level executives to work beyond age 65, or, for that matter, beyond age 70, it also allows their mandatory retirement at age 65 under specified conditions. Under this policy the law provides special procedures for extending service beyond age 65 in certain cases.

2. Exceptions to the Age 70 Retirement Limit

The new rule on when retirement may first be required is accompanied by five important exceptions applicable to colleges and universities. Employees with *unlimited tenure* in colleges and universities throughout the United States are exempt from the age 70 rule until July 1, 1982. Given the nature of the normal academic calendar, this puts the effective institutional impact of the new law for most individuals concerned at September 1, 1982. The regulations regarding the proof of the employment relationship, however, confuse the issue, and institutions should be cautious of this interpretation.

A question remains as to whether or not this exemption violates equal protection standards under the Fifth Amendment. The issue revolves around whether the temporary exemption of tenured faculty is reasonably related to furthering a public interest. The issue is complex and controversial enough that a court test of the exemption is possible, and how courts may rule is a matter of speculation.

The second major exception arises with respect to bona fide high-level executives who are eligible for non-forfeitable pensions of $27,000 per year or more — exclusive of Social Security — from the last employer. If such executives have been employed in the particular position during two or more years, retirement may become mandatory as early as age 65.

Third, the protection of the AADEA is not available to persons who are no longer qualified to perform the tasks for which they have been hired. The law speaks of "bona fide occupational qualifications."

The AADEA reassert the right of an employer to "retire" such persons or "not to hire" them at an age otherwise protected by the law. This is a very important provision to which we return in Chapter Six. Suffice it to say here that evaluations of employees become an essential feature if employers wish to prove lack of competence in job performance. This type of evaluation should start early in a person's employment and cannot be sprung on employees a few months or even years prior to when mandatory retirement would have taken place under the old legislation. We therefore expect most colleges and universities to permit employees who wish to stay on the job after December 31, 1978 (or June 30, 1982) to do so unless strong evidence exists that they suddenly are no longer capable of meeting the requirements of their position.

The fourth exception concerns collective bargaining agreements in force on or before September 1, 1977. If these agreements stipulate mandatory retirement ages of less than 70, such age limits remain in effect until the agreement expires or until January 1, 1980, whichever comes first.

Finally, employers with fewer than 20 employees during an entire year are not subject to the provisions of the AADEA. If employment exceeds 20 persons during any 20 calendar weeks, the AADEA go into effect. Once coverage has been established it stays in effect for the following calendar year even if employment drops to fewer than 20 persons.

3. Penalties

The penalties for violating the AADEA are severe; in fact, they are more severe than penalties for violating provisions of the Civil Rights Act of 1964. Central to penalties is the right to backpay in order to compensate employees for actual money damages incurred. Backpay penalties can be substantial when large numbers of employees are involved.

In addition to backpay, courts can award "liquidated damages" equal to the amount of the backpay for willful violations. Some courts award punitive damages for pain and suffering, others hold that "liquidated damages" and backpay are all the law allows. So far there is no Supreme Court decision on the subject.

The new law also provides for limited criminal penalties. These would be imposed if an employer is found to have resisted, impeded, or interfered with the Secretary of Labor's administration of the Act. A fine of $500 or imprisonment (or both) may be imposed, but imprisonment requires a prior conviction.

The Amendments establish new procedures facilitating the filing by individuals of age discrimination lawsuits against employers. The notification requirements are less stringent than those under the 1967 law and subsequent court interpretations.

The conciliation of age discrimination claims is given a boost through a more liberal definition of the statute of limitations. The AADEA also provide for the right to a jury trial, a right that was less explicit in the 1967 law.

The Amendments do not preempt state laws dealing with age discrimination lawsuits. Individuals may file State and Federal charges, and State suits must ordinarily precede action brought under Federal statute. Where both State and Federal statutes apply, institutions must adhere to the more liberal provisions of the two.

4. Regulations Promulgated by the Department of Labor

The DOL published final regulations on the AADEA in the *Federal Register* on Friday, May 25, 1979. The Equal Employment Opportunity Commission (EEOC) assumed administrative and enforcement responsibility for the AADEA on July 1, 1979, and concurred with the published DOL policy. The following highlights summarize how the DOL amended its regulations so that they conform to the new law. Section 4 (f) (2) of the 1967 Act is the primary issue. Central to this section is the following question which has been on employers' minds: Does the new law permit any difference in benefits between older and younger employees? The question applies to a range of benefits — pension accrual and retirement plan contributions, disability income and life insurance coverage, health and other non-wage benefits.

After a detailed review of the legislative history, the DOL concludes that, indeed, section 4 (f) (2) permits a reduction in benefits for older workers on the bases of actuarially significant cost considerations. The DOL explains, however, that "since section 4 (f) (2) is an exception from the general non-discrimination provisions of the act, the burden is on the one seeking to invoke the exception to show that every element has been clearly and unmistakably met."[2]

The regulations stipulate that the 4 (f) (2) exception be interpreted narrowly. The exception is limited primarily to retirement pension and insurance benefits. "Time off with pay" benefits (such as paid vacations and uninsured paid sick leave plans) are not covered by it. Benefit reductions must be based on significant cost considerations.

Where employee benefit plans meet section 4 (f) (2) criteria, benefits for older workers may be reduced to a level producing approximately equal costs to the employer as those incurred on behalf of younger workers. The regulation reads as follows:

> A benefit plan will be considered in compliance with the statute where the actual amount of payment made, or cost incurred, in (sic) behalf of an older worker is equal

to that made or incurred in (sic) behalf of a younger worker, even though the older worker may thereby receive a lesser amount of benefits or insurance coverage.[3]

An employer who can document the actual cost for providing a particular benefit meets the test that cost data used in justifying a reduction in benefits to older workers must be valid and reasonable. Where precise data are not available or employee samples are too small to be statistically significant, reasonable actuarial benefit cost information for similarly situated employees is acceptable as a substitute for actual cost data. When the institution is self-insured or experience rated, it cannot use a larger group of similarly situated employees to reduce benefits for older employees if its own costs are significantly different from those of the larger group over a representative period of years.

The regulations permit only certain types of age-based benefit adjustments. Employers cannot cut off — but may reduce — benefit coverage for employees who are within the protected age range (40 to 70). A reduction in benefit level can start at any age, not only at the institution's normal retirement age, but it cannot exceed an amount justified by actuarial cost differences.

Cost comparisons are permissible under the regulations on either a "benefit-by-benefit" or a "benefit package" basis. Employers using the former approach may, for example, reduce the life insurance benefit for older workers, but only to the extent of the cost difference. The employer may not reduce any other benefits unless they also produce cost differences.

The regulations offer a severely limited concept of a benefit package. Employers may consider a benefit plan in the package only if age affects the cost of that plan. A retirement or pension plan may not be included, nor may health benefits be reduced by more than a benefit-by-benefit approach would justify. Two important provisions limit how the benefit package method can allow greater cost reductions of individual benefits than those permitted under the benefit-by-benefit approach: the *overall* cost to the employer may not be less than allowable under the benefit-by-benefit analysis, and the employees may not receive less favorable benefits. To reduce one benefit by more than the benefit-by-benefit approach allows, employers must offset the reduction by providing a no less favorable benefit of at least equal cost.

The regulations permit cost comparisons and adjustments on the basis of age brackets of not more than five years. Such adjustments cannot exceed an amount greater than that justified by the average cost difference between one age bracket and that bracket immediately preceding it.

An employer cannot require as a *condition of employment* that older workers contribute more to an employee benefit plan than younger workers. The result would be a mandatory reduction in take-home pay, according to the regulations, and would constitute an impediment to employment in violation of section 4 (f) (2). The regulations impose a different restriction on employers regarding older worker contributions as a *condition of participation* in a voluntary employee benefit plan. As a condition of participation in a voluntary employee benefit plan, an employer can require older workers to contribute more than younger workers "only if the older employee is not thereby required to bear a greater proportion of the total premium cost (employer-paid and employee-paid) than the younger employee."[4] Where a reduction in benefit is otherwise justifiable, an older employee may make the additional contribution necessary to receive the same level of benefits as a younger employee.

An employer may not stipulate in benefit plans or contracts that employees who seek redress in litigation or in formal proceedings under the AADEA will forfeit their rights to benefits. Benefit plan or other employment policy provisions stipulating that individuals age 40 to 70 will not be hired because of age, or requiring involuntary retirement prior to age 70 are illegal regardless of the costs of providing specific benefits. An employer may, however, ter-

minate coverage, reduce benefit levels, or change contribution schedules upon the employee's retirement.

If employees are eligible for certain government-paid benefits such as Medicare — which are themselves based on age — then a reduction in benefits is not in violation of the law. As a general rule, however, the sum of employer plus government-provided benefits must not be less than employer-provided benefits for similarly situated younger employees.

5. Regulations Affecting Specific Employee Benefits

The four most common employee benefits are: life insurance, health insurance, disability income protection, and retirement benefits. The regulations have something to say for each of these.

a. *Life Insurance*

Life insurance benefits frequently remain constant until a certain age; then they are reduced. This practice remains legal if the benefit reduction meets the cost differential test mentioned earlier. Before colleges and universities make changes in their life insurance coverage, they may wish to announce to their personnel that existing benefits will continue unchanged pending a comprehensive policy review.

The institutional cost of life insurance depends, among other things, on required employee contributions, on the age and sex composition of the covered group of employees, and on the amount of protection provided. Frequently coverage is related to the employee's wage or salary in some manner. When wages and salaries increase, the cost of insurance goes up. The total cost of insurance also tends to rise when the percentage of older workers increases.

The variations in net costs among the many life insurance plans prevent us from presenting a general schedule of rates which would allow institutions to estimate the incremental cost of postponed retirement. Table A nevertheless gives an illustration of the steepness of the minimum premium escalation with advancing age.

TABLE A
ILLUSTRATION OF ANNUAL PREMIUM RATES PER $1,000 OF ANNUAL COVERED SALARY FOR GROUP LIFE INSURANCE
(Five Year Intervals)*

Age	Annual Premium	
	Males	Females
25	$ 2.97	$ 1.78
30	3.15	1.89
35	3.74	2.24
40	5.28	3.17
45	8.08	4.85
50	12.51	7.51
55	19.55	11.73
60	29.72	17.83
65	44.67	26.80
70	68.75	41.25
75	101.21	60.73

*Based upon New York minimum premium rates exclusive of adjustments based upon premium or insurance volume and claims experience.
(Source: TIAA)

We base our calculations on the assumptions that life insurance coverage is equal to salary, and that all 60 to 64-year-old staff members will stay on the job until age 70. Precise projections under these assumptions require knowledge of the specific personnel and salary structures; our estimates suggest that the incremental cost of coverage for older persons may often increase life insurance benefit budgets by .1 to .35 percent of covered salaries. A ratchet effect may occur during the transition period, and each institution has its own distinct conditions.

The AADEA recognize that group life insurance is more costly for older workers than for younger employees. Although employers may not terminate life insurance benefits for employees before age 70 or separation from service (whichever comes first) employers may consider reductions in coverage resulting from age-related cost increases. Reductions in benefits may start at any age.

Employers should review for compliance their employee life insurance plans that have any of the following elements:

- Termination of coverage at some age before 70, say 65.
- A sharp reduction in coverage to some constant level — say from $10,000 to $5,000 of insurance — at some specified age, say 65.
- Benefit reductions, starting at specified age, in excess of appropriate age-based cost differences.

Benefit plans in some institutions contain one or more of these features, and may violate provisions in the AADEA.

While the law permits employers to reduce (within limits) life insurance coverage for older employees, the desirability of this option is not clear. In a period of significant inflation, life insurance of more than token amounts may become a necessary protection for the surviving spouse or for other dependents. Adequate life insurance for survivors may be as important as maintaining pension protection.

b. *Health Insurance/Medical Benefits*

The wide variety of health insurance plans inhibits the formulation of general rules, but the following guidelines are clear. An employer may not concentrate benefit reductions on certain specific items in order to make continuing employment unattractive to the older worker. Health insurance coverage may cease at age 70 or upon separation from service, whichever comes first, but exclusion from a health insurance plan before that time on the basis of age is illegal.

While employers cannot terminate or reduce total medical coverage for employees who decide to work beyond age 65, they can count benefits available through Medicare in comparing medical benefits for individuals age 65 and over with those for individuals under age 65. Employers may equalize benefits by using either a "carve out" approach — under which Medicare benefits directly offset regular health plan benefits — or a Medicare "supplement" plan. The regulations provide that an employer cannot assume that eligible workers have taken advantage of the available Medicare coverage unless the employer informs each eligible employee of the need to apply for Medicare, and provides any necessary assistance in making a benefit application.

The regulations also cover Medicare "Part B." Where the regular health plan requires no employee contribution or a contribution smaller than that required for Medicare "B," the employer must pay or contribute towards "Part B," so as to make the total benefits available on the same terms as for younger employees. On the other hand, the employer's total contribution ("Part B" plus any other) need not exceed the highest health benefit contribution at any age less than 65. Employers could equalize costs by reducing benefits for employees 65 to 70, but would have to produce sound data to justify any reduction.

The incidence of illness and injury rises with advancing age, and the illnesses may be expensive. A large percentage of this potentially higher cost will be offset at least in part by Medicare benefits. Even where institutions are required to pay all of Medicare B, the total incremental budget impact may be relatively small (currently about $100 per year for each covered employee and for each covered spouse over age 64). Medicare coverage is subject to changes in the underlying legislation, and so is its cost to individuals and institutions. If the percentage of older workers increases significantly and if the incidence of illness among them rises also, the cost to the institutions may increase. In general we do not expect the AADEA induced cost for medical coverage to be significant.

c. *Long-Term Disability*

An employer may no longer terminate long-term disability plan coverage when an employee reaches age 65 or the institution's normal retirement age if the latter is less than 70. We understand this provision to apply to disability income protection separate from retirement benefits. The employer may choose from among the following level and duration of benefits options:

(1) Continue full benefits to age 70.
(2) Provide full benefits to age 65 for employees disabled at age 60 or less; and provide full benefits for five years or to age 70 (whichever comes first) for employees disabled after age 60.
(3) Reduce the duration or level of benefits consistent with the principle that the cost of benefits for older workers must be equal to the greatest cost incurred for this benefit for younger workers.

The costs of providing long-term disability benefits increase under the first two options when compared to 1978 plans, the majority of which cease coverage and benefit payments at age 65. The age to which payments continue (or the duration of benefits) is one important factor in determining the incremental cost. The incidence of claims is another.

We estimate that the incremental cost for most institutions may be less than 1 percent of covered salaries, and that for many institutions the increase may be less than .5 percent. More precise estimates would require detailed information on personnel structures and claims experience. Too few plans have provided benefits to age 70 over a long enough period of time, and we have been unable to study extensively the institutional variations in age, sex, salary, and employee classification structures, all of which affect disability plan costs. Service employees, for example, as a class experience more long-term disablements than other types of staff. The proportion of workers in this classification therefore influences an institution's costs of providing protection. We cannot, in the absence of such information, offer more precise projections.

In an era when almost any cost increase could be painful, some institutions may want to adjust benefits to lessen the cost impact. We note, however, that expenditures by institutions for the long-term disability benefit appear relatively small when the cost is expressed as a percentage of total personnel compensation, or even as a percentage of total benefit expenditures.

d. *Retirement Plans*

The cost implications of retirement plan provisions are particularly significant for colleges and universities, because retirement plans are one of the most costly of all benefit plans.

The rules and regulations which apply to retirement plans are so complex that institutions are well advised to review carefully the criteria governing benefit coverage. The AADEA compel employers to consider the conditions under which coverage must be provided for employees hired at older ages, as well as to consider the age at which pension plan contributions or benefit accrual may terminate.

The following factors bear on whether the AADEA would permit an employer to exclude

an employee from a retirement plan: (1) the age of the individual when hired, (2) the institution's normal retirement age, (3) whether the retirement plan is a defined contribution plan (such as TIAA-CREF) or a defined benefit plan (such as most state retirement systems), (4) whether or not the plan is subject to ERISA, and (5) whether or not the plan is "supplemental." Tables B-1 and B-2 summarize the highlights of the regulations.

TABLE B
RETIREMENT PLANS
EMPLOYER RESPONSIBILITIES TO OLDER WORKERS

B - 1
EMPLOYER OPTIONS RE: PARTICIPATION

	Defined Contribution Plan		Defined Benefit Plan	
Employee's Age When Hired	Basic Plan*	Supplemental Plan*	Subject to ERISA	Not Subject To ERISA
More than 5 years before normal retirement age	May not exclude	May not exclude	May not exclude	May sometimes exclude**
Less than 5 years before normal retirement age	May not exclude	May not exclude	May exclude	May exclude
After normal retirement age	May exclude	May not exclude***	May exclude	May exclude

*"Basic" is our term; the regulations distinguish only between "supplemental" and "not supplemental" and define "supplemental" with respect to an employee who is a participant in more than one employer-maintained plan. A defined contribution plan is supplemental for any employee who participates in both a defined contribution and a defined benefit plan. If an institution has no defined benefit plan, but two or more defined contribution plans, then one plan is basic and the rest are supplemental. The employer can designate which plan is basic.

**The employer may exclude an employee only if the exclusion is justifiable on the basis of cost considerations (as set forth in the regulations).

***The regulations do not state explicitly — but do imply — that employees may not be excluded.

B - 2
EMPLOYER OPTIONS RE: CONTRIBUTIONS AND/OR BENEFIT ACCRUALS

	Defined Contribution Plan		Defined Benefit Plan	
Employee's Age	Basic Plan	Supplemental Plan	Subject to ERISA	Not Subject to ERISA
Before normal retirement age	May not cease contributions	May not cease contributions	Must accrue benefits	Must accrue benefits
After normal retirement age	May cease contributions	May not cease contributions	May cease accruing benefits	May cease accruing benefits

Briefly, an employer may not exclude from a defined contribution plan an otherwise eligible employee who is hired before the normal retirement age. If the defined contribution plan is

not supplemental, the employer has the option of continuing or discontinuing contributions after the normal retirement age for participants in the plan, regardless of the age at which the employee was hired.

Several guidelines apply to defined benefit plans. An employer need not credit service or take into account salary increases occurring after the normal retirement age for purposes of benefit accrual. Nor must an employer make actuarial adjustments in benefits or incorporate benefit improvements given other active employees. But if benefits are frozen at the normal retirement age, any benefit improvement provided to retirees must also be given to employees extending their service. An employer has the option of deferring retirement benefits until an employee actually retires. The regulations also state that an employee receiving long-term disability benefits may not have "actually retired," in which case the employer need not begin retirement income payment. The regulations also offer guidelines for incorporating Social Security offsets into the retirement benefit.

An institution's decision to continue contributions or accrue benefits under its retirement plan involves important cost considerations. The employer's costs for a defined contribution plan are equal to the monthly payments into the annuity fund on behalf of eligible employees. Normally these may range between 5 and 15 percent of a worker's wage or salary, depending on the contribution rate under a given institution's plan.

The total cost reduction — or, as the case may be, cost continuation — depends on the number of persons employed beyond their normal retirement age and on their aggregate wages or salaries. For instance, one of the institutions reporting in our survey indicates that it will have a total of 12 employees who would have had to retire in 1979, but who are now eligible to stay on. Their aggregate salaries amount to $162,000. The institutional contribution to TIAA-CREF is 10 percent. Thus, if all eligible employees stay on the job next year at the same salary, the cost reduction or contribution is $16,200.

Employers with defined benefit plans may elect to accrue benefits under the plan for employees who continue to work beyond the normal retirement age, or alternatively, may "freeze" benefits at that age, thus disregarding subsequent years of service and salary increases in calculating the pension. The latter approach would obviously result in greater savings to the employer and lower periodic benefits to the employee than would the former. How much greater the savings would be depends on the number of participants over the normal retirement age, the aggregate increase in their salaries and years of service, and the benefit formula itself. Only actuarial evaluations can determine the additional cost or savings for the alternative.

6. The AADEA Impact on Salary Budgets

When older persons stay on the job longer than previously, the argument runs, the AADEA tend to raise salary costs for institutions. Since older employees often receive larger salaries than would have to be paid younger replacements, the concerns appear to be plausible.

What happens to an institution's budget when an older person decides to stay on the job one more year? First, and generically speaking, the impact on the budget is the same as that caused by any worker who stays an additional year: other things being equal, the budget increases to the extent to which there is an increase in the individual's total compensation (salary plus benefits) and to the extent to which there is an additional cost to the institution for providing certain benefits. Second, since older workers often receive larger salaries than younger workers, the incremental impact on the budget may be somewhat larger. Where percentage wage and salary increases are not uniform, however, increments for older workers are not necessarily larger than for younger persons. Thus, while there undoubtedly is an AADEA induced cost impact on institutional budgets when older persons choose to retire later rather than early, we do not believe that by itself this phenomenon need be of crisis-producing scope.

Especially for smaller institutions where the number of older employees is already relatively small, this type of budget increase — while it should not be brushed aside as unimportant — is not about to cause worrisome hardships. Even when one considers the possibility of no mandatory retirement age, the long-range budget impact caused by older workers will tend to be limited to increases in compensation.

Matters become more complicated when we consider the fact that under the new law, *a change in expectations occurs*. Before the enactment of the AADEA, an institution may have planned to replace an older worker with a younger person, or it may already have decided not to replace a worker it expected to see retire at age 65. *Either event would have been seen as bringing about a new reduction in the budget base.* The AADEA take away this choice and, in doing so, are at least temporarily preventing such cost reductions from taking effect. At some future time, older persons will retire, and the choice will have been restored. In practice, the postponement may not last until all retained employees reach age 70; the attrition among workers between the ages of 65 and 70 may be considerably larger than for workers below age 65. Managerial freedom may in fact be greater than the age-70 retirement limit implies.

For colleges and universities who see their personnel requirements shrink in the light of anticipated enrollment reductions, the impact of the AADEA may be to postpone staff retirements and indirectly to cause staff layoffs (See Chapter Five). Thus, the true cost impact is a function of several staffing and personnel planning decisions. In such instances the AADEA may complicate staff and benefit planning, but they are not the primary cause for cost or budget increases that result when older workers choose to retire later than anticipated.

Any salary cost impact resulting from the AADEA should be seen as a transition phenomenon. Many institutions currently mandate retirement at age 68 or 70. Obviously, the direct AADEA salary cost impact for these colleges and universities would be relatively small or nil.

When the problem is seen as one of comprehensive personnel and benefit planning, institutions have numerous options for trading off an AADEA induced salary cost increase against cost saving or cost postponing alternatives. Some of these include absorbing the additional cost through smaller salary increases, reducing staff size, leaving certain positions temporarily vacant, administering salaries and salary increases carefully, and planning ahead rather than establishing personnel and salary budgets only one year at a time. Where pressures for future staff reductions are great, institutions may have to consider the retraining of workers, the creation of procedures and incentives that encourage early retirement, and other steps, some of which will be discussed in Chapter Six. In a multivariate setting with a multitude of opportunities for cost and budget adjustments, it would be both inappropriate and inaccurate to assume that the AADEA must or will soon bring about increases in personnel compensation budgets of major consequence. Even where the number of persons age 66 and over increase significantly once the AADEA have taken effect, the annual budget increment tends to be restricted to the annual salary (and induced benefit cost) increase unless new personnel are hired at the same time retirements are being postponed.

7. The AADEA and Social Security

A recent change in the Social Security law raises both the taxable income base and the tax rate for employers. The statuatory increases take effect on January 1 of 1979, 1980, and 1981. Thereafter, the wage base increases automatically each year at the rate of growth in average national wages. Table C shows the scheduled and projected tax rates and maximum taxable wage bases through 1987. These changes represent increased cost to employers independently of the AADEA.

TABLE C
SOCIAL SECURITY TAX PAYMENT CHANGES

Year	Worker's Maximum Annual Pay Taxed	Tax Rate	Maximum Tax Per Worker	Increase From Old Law
1977	$16,500	5.85%	$ 965.25	$ --
1978	17,700	6.05	1,070.85	--
1979	22,900	6.13	1,403.77	260.32
1980	25,900	6.13	1,587.67	353.47
1981	29,700	6.65	1,975.05	595.35
1982*	31,800	6.70	2,130.60	656.40
1983*	33,900	6.70	2,271.30	702.60
1984*	36,000	6.70	2,412.00	748.80
1985*	38,100	7.05	2,686.05	928.35
1986*	40,200	7.15	2,874.30	978.00
1987*	42,600	7.15	3,045.90	1,033.50

*Projections based on Social Security Administration assumptions of annual growth rates in average wages.
(Source: TIAA-CREF)

The AADEA exacerbate the increased Social Security costs problem for institutions by permitting older workers to continue employment to age 70. Older workers often receive high wages and salaries. The combined result of the Social Security changes and the AADEA is that employers must pay an increasingly higher tax rate on an increasingly higher amount of an older worker's salary for as many as five additional years.

Comparing an institution's aggregate present and future Social Security costs, however, is a more complex task than this discussion may indicate. The aggregate costs are substantial and growing, but the timing of an absolute increase depends upon present staff structure, replacement policy, and other factors that may vary among institutions. Each institution should make its own projections of Social Security costs, and assess how those costs affect its budget.

Footnotes

1. We use the following authorities throughout Chapter Two in our discussion of the law:

   Department of Labor, "Age Discrimination in Employment Act — Exemption for Certain Tenured Employees at Institutions of Higher Learning," *Federal Register* 43, no. 239 December 12, 1978.

   Department of Labor, "Employee Benefit Plans; Amendment to Interpretative Bulletin," *Federal Register* 44, no. 103 May 25, 1979.
   The final regulations were issued May 25, 1979, effective immediately, but the 1978 Amendments to the Age Discrimination in Employment Act became effective on January 1, 1979.

   Ira Michael Shepard, *A Compliance Guide to the 1978 Amendments to the Age Discrimination in Employment Act* (Washington, D.C.: College and University Personnel Association, 1978).

2. Department of Labor, "Employee Benefit Plans; Amendments to Interpretative Bulletin," *Federal Register* 44, no. 103 May 25, 1979, p. 30658.

3. Ibid. p. 30658.

4. Ibid. p. 30659.

III. THE AADEA: THE BROADER DIMENSIONS

Chapter Two concentrates on the rather narrow issues of compliance and direct cost consequences of the new law; this chapter explores the impact of the AADEA in the context of higher education generally. We consider why the faculty problem receives so much attention, and how the AADEA may undermine affirmative action goals. Then we discuss the issues of demand for higher education services, and how employees may view retirement in light of inflation.

We touch on demand and inflation in order to understand the full dimensions of the legislation. The AADEA certainly did not cause declining student enrollments, nor did they create spiraling inflation. Higher education knew these two spectres before the passage of the new law. Now the industry faces the *combination* of the AADEA and both declining demand and persistent inflation. How the AADEA interact with these economic forces is a vital concern to the higher education community. Each college and university needs to know how it may eventually be affected.

1. The Focus on Faculty

Attention has focused almost exclusively on the faculty-age-70 retirement issue for a number of reasons. The most important of these is that teenage undergraduate enrollment prospects for colleges and universities, both public and private, are at least disheartening, if not generally dismal. Many perceive a need to reduce the size of college and university teaching staffs throughout the next decade in response to the anticipated enrollment decline. Viewed in this light, the new age-70 retirement law appears to be a perverse cause foreshadowing financial trouble. Undergraduate enrollment trends and delayed faculty retirements are heading toward a collision spelling financial distress and even disaster for many institutions.

A special aspect of the enrollment-versus-faculty-size problem is the prevalence of tenure among the senior faculty. Many pundits argue that faculty tenure is the real villain; abandoning the tenure system would tend to speed up professorial attrition as a consequence of the resulting dismissals. One writer suggests that faculty members who reach age 60 give up their tenured teaching positions and consider new assignments elsewhere in the institution.[1] One need not be persuaded by these arguments to understand why the tenure issue has helped draw public attention to the AADEA's impact on faculty staffing at the expense of other collegiate personnel.

Another reason for the preponderance of faculty centered thinking involving AADEA related employment policy issues in higher education is the low profile — and this is putting it politely — enjoyed in almost all of higher education literature by personnel questions that concern non-faculty employees.[2] One really has to dig for substantive information on the number of non-faculty persons employed, on their problems and grievances, on their economic and social status before and after retirement, to mention but a few of the more common issues. Unless some of them, as has been the case now and then, go out on strike and make the Evening News, not even the *Chronicle of Higher Education* is known for getting up a head of steam on their behalf very often.

The new age-70 retirement limit and other AADEA provisions create interesting opportunities and pitfalls for colleges and universities with respect to non-faculty employees. The issues here may perhaps be less specialized, resembling those encountered in employment generally throughout the U.S. economy. Some non-faculty personnel levels tend to be less closely tied to enrollment trends than may be the case for the faculty. And the AADEA requires that employment and benefit policies be brought into conformity immediately. Contrary to past practice, benefit policies for non-faculty workers may become precedent setting in a number of institutions.

Thus, not only with respect to tenure but also more generally, the faculty-age-70 retirement problem represents a special phenomenon within the much broader question of how institutions of higher education plan to adapt their employment policies and benefit plans to the AADEA. Colleges and universities must focus on all of their personnel under the new law. This encourages them to see all of the dimensions of the age-70 retirement and equal employment issues.

2. The AADEA vs. Equal Employment Opportunity Objectives

Conflicts between implementing the AADEA and pushing ahead in the quest for affirmative action in equal opportunity employment may arise. If increasing the proportion of minority and women faculty members is important, a conflict is to some extent inevitable in those instances where the age-70 retirement limit must be enforced in the face of declining enrollments and thus declining staff needs.

Three things, however, ought to be kept in mind. First, while the time table for affirmative action plans may now change in many institutions, where hiring for replacements remains an option, institutions must now pay even greater attention to established equal opportunity objectives than before the law was enacted. Second, institutions differ in staff attrition (or separation) rates and in enrollment prospects. We cannot conclude as a general principle that under the AADEA staff replacements will dry up in all institutions. And third, if those who are retiring at many institutions are predominantly white males, their departure alone improves the proportion of women and minority staff members unless they are replaced.

The new law creates an adjustment problem that extends a few years into the future. After a transition period we can expect a new normalcy. Problems that arise inevitably during any period of adaptation should not overwhelm us. Instead, we should look toward the time when new policies have taken hold and when individual as well as institutional expectations, motivations, and actions manifest themselves within the new framework. Thus, in the implementation of the AADEA, we must consider two points of view. One of these considers the transition phase and the other focuses on age-70 as well as uncapped retirement as the new norm. Chapter Four returns to this distinction.

3. The Impact of "Market" Forces

Collegiate personnel policies and structures will respond in no small measure to whether a given institution faces an expanding, an unchanging, or a declining market for its services. Under the AADEA, a manager's perception of how future demand may be shaping up will help determine how benefits for older workers will evolve.

Foremost among the market forces ahead are the changes that take place in the age composition of enrollments. More non-teenage students are attending higher educational institutions today than was the case in earlier decades. Older students often are also part-time students, and during the last five years part-time enrollment has had an explosive growth in the aggregate. The shift to older and part-time students also affects the program mix offered by institutions. And this in turn influences the demand for specific types of instructional staff. In the next decade we expect institutions to differ enormously in how these forces help shape their personnel policies and their planning.

Teenage demographic changes appear to receive most of the publicity among the forces that can affect future staffing patterns. We anticipate declining undergraduate teenage enrollments on a broad front. Many observers therefore allege that numerous colleges and universities must find ways to reduce teaching and non-faculty staffs. A characteristic of college and university finance is that revenues decline faster than costs when enrollments decrease. We can therefore expect additional pressures for budget tightening. A natural temptation is to save money in the benefit plans area.

We also hear the argument that the decline in teenage enrollment chiefly affects small colleges in the independent sector. But many public institutions are also vulnerable, perhaps more so, depending on particular circumstances.

An educational institution's services may expand or shrink quite independently of changes in enrollment. A large percentage of total revenues at many universities comes for purposes other than undergraduate instruction. The Research University is a case in point, but Comprehensive Universities and Colleges with graduate programs also have this characteristic. Whatever the nature and scope of non-undergraduate-instructional services may be, the changing demand and funding of them always influence long as well as short-range personnel requirements.

One of the more interesting, and statistically not yet well perceived, changes in higher education staffing is the trend to more part-time personnel. Schools limit teaching appointments to a specific course or for a limited period. Contractors, consultants, independent professionals on retainers, and persons working under limited contractual arrangements provide non-academic services. The tenure problem which receives so much press attention may be less of a threat over the long pull than some tend to imagine. The point here is that colleges and universities already are taking advantage of numerous opportunities for enhancing their managerial flexibility and freedom in designing their personnel structures. Thus, even as the new age-70 retirement limit slows down the formerly anticipated rate of personnel attrition, new opportunities for flexible personnel management arise.

Every conceivable type of researcher and agency have studied the prospects for higher education enrollments. With few exceptions, the findings or prognostications for the 1980s paint a fairly dismal picture in the aggregate. The most sober statistics dwell on estimates of high school graduations. In general, these are expected to decline consistently throughout the decade, except when for two years a short-lived rebound in graduations is anticipated. The decline is expected to be severest in the industrial urban areas of the north-central and eastern United States.

Projections of higher education enrollment tend to be somewhat less extreme when analysts include assumptions about changes in student mix and in the percentage of older persons attending college. Thus, the latest NCES projection foresees only a modest overall enrollment decline through 1985-86, albeit with an assumption that more part-time older persons will make up for the shrinking teenage cohort.

One of the most prominent early projections of demand for faculty personnel is Allan M. Cartter's in *Ph.D.'s and the Academic Labor Market*. A year later, NCES published its faculty demand estimates in *Projections of Education Statistics to 1985-86*. Based on a number enrollment projections these studies estimate the demand for full-time teaching faculty and conclude that a protracted decline will begin in 1982. Thomas M. Corwin and Paula R. Knepper, in a study for the ACE, and Luis Fernandez, in a Carnegie Council policy study, build their own estimates from these earlier studies and reach roughly the same disheartening conclusions: because we must expect a significant decline in undergraduate enrollments throughout the United States, the demand for full-time faculty with Ph.D. degrees will also decline dramatically (see Appendix for an illustration of how Corwin and Knepper, and Fernandez view the situation).[3]

Only Corwin and Knepper asked how the AADEA might affect the demand for faculty during the 1980s. According to the authors, the total number of new faculty hired would drop to zero in 1985 and 1986 if the retirement age remained 65, but would stay at zero from 1983 through 1988 with the retirement age raised to 70. Fernandez reaches considerably less alarming conclusions, and he does not relate his estimates directly to changes in retirement age limits.

Aggregate demand studies cannot tell us what will or may happen in individual higher educational institutions. Nevertheless, the question of how enrollment changes during the 1980s affect staffing requirements is on nearly every college administrator's mind. We could dismiss the above mentioned studies as alarmist, but this may not be the wisest course of action. Even the knowledge that many institutions may not face significant enrollment declines may have to be tempered by the realization that aggregate market developments invariably affect all institutions in one manner or another.

When we look toward the 1980s and prospects for sharp enrollment reductions, we have in mind the kind of college or university, public or private, that is presently oriented almost exclusively toward a teenage undergraduate clientele and that has relatively little prospect for replacing its traditional market with a new type of student. Many such institutions exist and some of them may be relatively large state universities which grew explosively during the 1960s and may face significant enrollment declines during the 1980s.

Another type of institution, predominantly in the private sector, enters the 1980s from a weak financial base. Howard Bowen and John Minter describe this institution which, from the impact of even relatively small enrollment declines, may face a major financial problem requiring it to retrench and, among other things, reduce significantly the number of faculty and other personnel. Bowen and Minter estimate that the number of private institutions in or near financial crisis represents normally somewhere between 10 and 20 percent of all private colleges.[4]

The significance of the foregoing is rather obvious if we assume, as we must, that the AADEA may lead to later retirements among faculty personnel. The responses to a pilot survey (see Appendix I) suggest that the faculty in question would prefer to retire earlier than they plan to do. Ladd and Lipset come up with similar findings.[5] In Chapter Four, we highlight retirement experience at one large public institution; the faculty there retires later than any other group of employees. Our questions to a sample of institutions produced the general response that faculty members tend to retire relatively late. And, when we look at the economics of retirement, we see why all personnel may have an incentive to stay on the job longer. All of this adds up to a potential for later retirements under the AADEA, unless institutions can afford to make their pension programs attractive enough so that retirements may take place at some normal retirement age prior to the new AADEA limit.

4. The Employee Perspective

Institutions planning their post-AADEA personnel policies will do well to consider the retirement issue from the perspective of the employees who are approaching retirement age. The overriding concern reported by this group in response to survey questionnaires is adequate retirement income. If employees are to make responsible, informed decisions regarding retirement, then they must know the consequences inherent in the alternatives available to them. If employers intend to establish workable retirement policies that accomplish institutional goals, then they must understand the considerations of their employees.

a. *Is Retirement Behavior Changing?*

Betsy D. Gelb and David M. Hunt, writing in *Business Horizons*, admonish us as follows: "Up to the present, our insights into early retirement have come from studies of how many and who retired before 65 when 65 was a legal mandatory retirement age." They ask what percentage of employees age 65 will decide to stay on, and point out that "retiring at 67 in 1979 three years 'early' differs from retiring at 62 in 1978." The authors write about employment and

retirement in general and emphasize evidence for blue and white collar jobs. They conclude that "most workers will continue to retire before 65, and most of those who reach 65 still on a full-time job will retire from it before 66."[6]

The *Wall Street Journal* reports, on the other hand, the findings of a Louis Harris and Associates survey of current and retired employees from 212 large corporations. This research leads to the suggestion that, "The current trend toward early retirement may be reversed in the not-too-distant future. The pressures of inflation are boosting retirement income needs and expectations." Over half of the current employees expressed a preference to work past their established retirement age, and 46 percent of the retired group reported that they would prefer to be working.[7]

Thus, for many reasons the AADEA will lead to a change in retirement behavior. And testimony similar to that in the Harris survey, along with our changing perceptions of older persons, may explain in part how the AADEA originated. The law is in some respects a reflection of the times. The AADEA encourage workers to continue on the job and inflation discourages them to stop working. The combination may alter dramatically the current retirement pattern.

b. *Institutional Considerations*

Governance patterns differ in higher education, and the procedures for putting into effect specific salary and benefit programs vary greatly. Increasingly, however, employers seek the views or even consent of employees when changes are made in employment policies and compensation arrangements. The growing incidence of collective bargaining underlines the importance of the fact that the fixing of benefit plan provisions is not solely an institutional prerogative.

Institutional cost considerations are important and valid elements in deciding about future benefits for older workers. We suggest in Chapter Two that — to the extent to which they are known — cost consequences of each benefit taken by itself may not be burdensome. But taken as a group under generally adverse external circumstances, serious financial and staffing problems can arise. Short and long-range planning are incomplete when estimates of future costs are missing.

An interesting aspect of the cost question is whether it is worth getting "tough" with older workers for monetary ramifications that may be at best marginal when considered within the total institutional budget. And when the budget crunch is caused by adverse market forces, is this a reason for focusing on employees who are availing themselves of a right guaranteed by law? We believe that the following distinction can be made: The AADEA may cause institutions mild or severe financial and staffing problems; older employees who decide not to retire until age 70 are not the primary cause of the budget crunch.

Employers and employees have ample common ground for the cooperative development of a retirement policy. We believe that they can achieve a mutually agreeable policy only in an informed environment. The intent of this section is to shed some light on the most important financial considerations for employees facing retirement decisions.

c. *The Effect of Inflation*

In the literature on retirement from higher educational institutions, a common theme has been how relatively well off former college and university professors and high administrative officers are in retirement. Mark H. Ingraham and James M. Mulanaphy, as well as Carl V. Patton paint an essentially rosy picture of the economic status of persons retired from higher education.[8] Since both studies rely heavily on the testimony of retired persons, the authors cannot be faulted for their findings. Our experience with retired colleagues and former service personnel suggests, however, that the whole story has not yet been told. Many older employees face serious economic problems in retirement. Once retired, they discover that retirement income after taxes is adequate for a while; but after a number of years of protracted severe inflation, the

screw tightens. Among those who worked many years for low wages and depressed salaries, the time comes when every retirement annuity penny counts. In the face of declining CREF payments and eroding purchasing power, several colleges have found it necessary to contribute supplementary retirement income to already retired persons.

Persons retiring during the next decade began their academic and work careers during the late 1940s and early 1950s. At retirement the employee classes of 1947 through 1957 will feel the impact on pensions from long years of slow increases in the capital accumulations from which annuities are eventually paid. Many persons who will retire during the 1980s are among the service and clerical personnel whose hourly wages in much of higher education still are relatively low. Having seen the annuities of custodians, secretaries, food service workers, and others, we are impressed with the potential inadequacy of their present retirement incomes in an age of inflation.

We often overlook the high probability of living to advanced ages, and the effect of inflation during these long years on the purchasing power of incomes and savings. Even after one takes into account the reduced taxes under present tax laws at least at the federal level, long life probabilities and high rates of inflation can have a devastating effect on the disposable real income of retired persons. Although our national economic policy makers claim that a seven percent annual inflation rate will be prevented through appropriate actions, the number serves as a useful illustration of the problem: at seven percent, the purchasing power of income is cut in half every ten years!

TABLE A

THE EFFECT OF INFLATION ON THE PURCHASING POWER OF $10,000 OF ANNUITY INCOME

	Inflation Rates*			
Age	**7%**	**6%**	**5%**	**4%**
65	$10,000	$10,000	$10,000	$10,000
67	8,649	8,836	9,025	9,216
68	8,044	8,306	8,574	8,847
70	6,957	7,339	7,738	8,154
75	4,840	5,386	5,987	6,648
80	3,367	3,953	4,633	5,421
85	2,342	2,901	3,585	4,420
90	1,630	2,129	2,774	3,604

*These are simple annual inflation rates. See Appendix II for additional details.

With inflation rates like these a twenty-year past-age-65 life span is financially speaking, no picnic. And a 20-year life expectancy past age 65 is a common event as the following table shows:

TABLE B

COMPARATIVE PROBABILITY OF SURVIVING FROM AGE 65 TO GIVEN AGES FOR MEN AND WOMEN*

To Age	Males	Females
70	90.2%	95.2%
75	77.0	88.3
80	59.8	76.9
85	39.8	59.5
90	20.4	36.6

*Based on the 1971 Individual Annuity Mortality Tables, set back 1 year for males and 2.5 years for females.
(Source: TIAA)

Given these high survival rates, particularly for women, one should think that in the planning of retirement income, the maximization of future pensions might have a very high priority both among employers and among workers. To the extent to which retirement income is linked to the Consumer Price Index — as is the case presently for Social Security benefits and some pensions for public service employees — the effect is, of course, less dramatic than pictured in Table A. Nor dare we forget that many retired persons have other sources of retirement income, and inflation may help raise dividend payout, may push up real estate values, and add appreciation to common stock investments. In spite of what the literature says, it may be well to remember that studies on poverty show that retired persons make up a spectacular percentage of those classified as poor.

d. *The Consequences of Postponed Retirement*

Retirement planning is not a subject that has received very much attention in colleges and universities generally. Today, because of the AADEA, as a result of the growing scientific interest in the problems of aging, and also in response to increasing or felt personnel pressures, discussions are becoming more frequent. Here, we consider briefly the important question of the size of employee annuities, Social Security income, and other benefits available on retirement.

Individuals approaching retirement tend to see the future in the light of their own particular circumstances. A case in point is how downward adjustments in life insurance coverage would be viewed in contrast to the cessation by the employer of pension plan contributions.

Small reductions in life insurance coverage might be acceptable to most older persons, particularly when there are no immediate dependents. The conventional wisdom is that older persons have fewer family obligations, that their children (if any) are taking care of themselves, and that the house (if there is one) is paid for. But lately things have been changing here and there. People marry late or remarry, they assume new family obligations late in life, and mortgage payments do not disappear as a person gets older. The costs of dying and of burial also keep rising. All of this may mean that many older employees will want and need as high a life insurance protection as possible at reasonable cost.

The matter of pension plan contributions is both different and more complicated. As we approach the age-70 requirement, what is the rate of decline in annuities and Social Security income as one moves from age 70 down to early retirement at ages 65 and 62?

Table C illustrates how rapidly retirement income increases if a worker postpones retirement. The table also shows the effect of a cessation of premiums. For employees with relatively small capital accumulations — namely many non-faculty employees — increases of annuities under full coverage through age 70 are noticeably high.

A person covered by Social Security can raise annual benefits significantly by postponing retirement (Table C). Changes in the Social Security law complicate the estimates of future benefits, and future changes may make today's estimates obsolete. Nevertheless, our calculations suggest that Social Security benefits may increase significantly for each year of additional work past age 65.

TABLE C

EFFECT OF POSTPONED RETIREMENT ON RETIREMENT INCOME

Effect on the Size of Annual TIAA Annuities With and Without Additional Premium Contributions*
($60,000 Accumulation at Age 62, $20,000 Salary)

	Age			
	62	65	68	70
Without Premium	$6,828	$8,550	$10,812	$12,714
With Premium	$6,828	$9,308	$12,576	$15,336

Effect on Annual Social Security Income Old and New Laws**

	Age			
	62	65	68	70
Old Law	$4,052	$6,857	$9,257	$11,148
New Law	$4,669	$6,717	$8,703	$10,506

*Premium contributions are equal to 10 percent of a constant $20,000 salary from the 62nd birthday to the retirement-age birthday. The TIAA projections assume dividend rate, not guaranteed, of 6 percent during the accumulation period and 9 percent during the payout period, and an expense factor of 3.5 percent of premium during the accumulation period.

**The old law applies to individuals who reach age 65 before 1982, even if they postpone retirement to 1982 or later. The Social Security illustration assumes maximum taxable salary earned in each year of postponed retirement.

See Appendix II for additional details
(Source: TIAA)

The continuation of employer premiums to a defined contribution plan may be very much in an employee's long-range interest. Well informed employees are not likely to consent to the cessation of employer paid premiums to defined contribution plans unless they are assured, in their own minds, of the long-range adequacy of their total retirement incomes. Institutions and participants would be poorly served if institutions respond by reducing contributions throughout. Individuals need to have adequate retirement income to choose to retire before age 70.

Footnotes

1. McLane, Charles B., "The Malaise of Tenure Decisions: a Proposal for Senior Faculty Reassignment at Sixty," *Academe* March 1979, p. 133.

2. The *Journal of the College and University Personnel Association* is a notable exception to our claim that little is written about non-faculty personnel.

3. Corwin, Thomas M., and Knepper, Paula B., "Finance and Employment Implications of Raising the Mandatory Retirement Age for Faculty" (Washington, D.C.: American Council on Education, December 1978).

   Fernandez, Luis, *U.S. Faculty After the Boom: Demographic Projections to 2000* (A Report for the Carnegie Council on Policy Studies in Higher Education, April 1978).

4. Minter, W. John, and Bowen, Howard R., *Independent Higher Education* (Washington, D.C.: National Association of Independent Colleges and Universities, 1978), p. 111.

5. Ladd, Everett Carll, Jr., and Lipset, Seymour Martin, "Many Professors Would Postpone Retirement if Law Were Changed," *The Chronicle of Higher Education* November 7, 1977.

6. Gelb, Betsy D., and Hunt, David M., "Staying on the Job After Sixty-Five," *Business Horizons* February 1979, p. 18.

7. "Harris Survey Finds Inflation Won't Quit When People Retire," *Wall Street Journal* March 1, 1979, p. 26.

8. Ingraham, Mark. H., and Mulanaphy, James M., *My Purpose Holds: Reactions and Experiences in Retirement of TIAA-CREF Annuitants* (New York: Teachers Insurance and Annuity Association, 1974).

Patton, Carl V., *Academia in Transition: Mid-Career Change or Early Retirement* (Cambridge, Mass.: Abt Books, 1979).

IV. RETIREMENT INCOME PLANNING: THE NEED FOR A PRE-AGE 70 RETIREMENT INCOME BASE

The AADEA extension to 70 of the mandatory retirement age will play an important role in how colleges and universities henceforth approach their retirement benefit planning. In addition, both before and since the enactment of the new federal legislation, several states have established so-called uncapped retirement policies. And already efforts are in progress on Capitol Hill that would eliminate mandatory retirement for reasons of age for all workers.

In this context, we raise the following questions: (a) should retirement benefit plans focus on an age well below 70 when any employee in public or private collegiate work ought to expect or be entitled to receive an adequate retirement income? and (b), given such a base age, how much retirement income should long service employees realistically expect?

The AADEA have a bearing on both of these questions. If employers are permitted to reduce or cease retirement benefit contributions after a certain age and before age 70, or if they are allowed to limit retirement benefit accruals for certain older workers, both the age and income questions have been posed implicitly. TIAA, the AAUP, and others have well-established positions on this issue, and we wish to highlight here some of the major considerations.

1. Normal Retirement Age

The DOL regulations introduce the concept of a "normal retirement age," and mean by it the time when an employer may first cease or reduce certain benefits to older workers. TIAA uses the expression in several of its surveys on higher education retirement practices. Colleges and universities occasionally make the distinction between a "normal" and a "mandatory" retirement age.

Unfortunately, the term "normal retirement age" means different things in different contexts. In public retirement systems, for instance, "normal retirement age" technically refers to the earliest age at which an employee becomes eligible for the actuarially unreduced full formula benefit. The expression serves, in TIAA surveys, to define the age beyond which extended service requires special approval (nominally from the governing board or from some other designated authority). TIAA has sometimes asked institutions to identify the normal retirement age as the stated age at which retirement is not considered to be "early."

The concept of a normal retirement age can and does serve as a base for planning and establishing primary retirement income objectives. The clearest evidence of this relationship exists in defined benefit plans, particularly in those established for public employee retirement systems. In its counseling with institutions, TIAA advises colleges and universities with TIAA-CREF plans to focus on some specific age (not necessarily the mandatory retirement age) for retirement benefit planning.

With the advent of the new age-70 limit and the prospect for more laws eliminating age-mandated retirement, the multiplicity of age limits now in evidence may cause considerable confusion in the minds of employees, agencies, judges, and institutional planners. A brief look at the statistics helps identify a major problem.

Table A summarizes the findings for faculty "normal retirement ages" in 1,375 TIAA-CREF participating colleges and universities. The expression "normal retirement" refers to the age beyond which renewals, if any, require special authorization.

TABLE A

RETIREMENT AGE FOR FACULTY IN TIAA-CREF PLAN COLLEGES AND UNIVERSITIES (1977)

	Extensions of Service Beyond Normal Retirement Age										
	Number of Plans										
Normal Retirement Age	None	To Ages 66-67	To Ages 68	To Age 69	To Age 70	To Ages 71-75	Without Specific Limit	No. of Plans According to Normal Retirement Age	% of Plans According to Normal Retirement Age	No. of Participants According to Normal Retirement Age	% of Participants According to Normal Retirement Age
Under 65...	0	0	0	0	28	0	0	28	1.9	1,397	0.5
65.....	70	7	55	6	710	43	224	1,118	82.4	180,246	65.4
66.....	3	0	0	0	4	0	4	11	0.8	3,193	1.2
67.....	2	—	0	0	0	2	2	15	1.1	7,773	2.8
68.....	3	—	—	1	21	2	10	37	2.7	23,904	8.7
69.....	0	—	—	—	0	0	0	0	0.0	000	0.0
70.....	87	—	—	—	—	20	41	148	10.9	58,829	21.4
Over 70 or none	-2	—	—	—	—	0	0	2	0.2	127	*
Subtotal...	167	7	55	7	770	67	281	1,357	100.0	275,469	100.0
Not classified or no information								18		1,543	
Total.....								1,375		277,012	

*Less than 0.1 percent

(Source: TIAA)

The "normal" retirement age is identical with the "mandatory" retirement age for 167 institutions surveyed. The remaining colleges and universities in the sample permit extensions of service. Age 65 stands out as the most prominent "normal retirement age."[1] Over 21 percent of the employees embraced by the plans in the survey have age 70 as either the "mandatory" or the "normal" retirement age.

A more modest survey undertaken expressly for this study uncovers another complication: while the large majority of respondents mention a single "normal" or "mandatory" retirement age for all of their employees, over one fifth of those surveyed gave *two* "normal" retirement ages. (See Table 1B in Appendix I.)

The results of a survey of retirement ages in public employee retirement systems and institutions differ significantly from those found for TIAA-CREF participating colleges and universities. "Normal retirement" ages in public retirement systems seem to focus on ages 60, 62, and 65, the latter being in the majority. In contrast to the TIAA-CREF plans, the age limits specifically define *when actuarially unreduced full service formula retirement benefits can be claimed*. Table B displays the findings.

TABLE B

AGE AND SERVICE REQUIREMENTS FOR EARLIEST ACTUARIALLY UNREDUCED FORMULA RETIREMENT BENEFIT*

		Number of Systems
Age 65		30
No service requirement	16	
Plus 4 years of service	2	
Plus 5 years of service	6	
Plus 10 years of service	6	
Age 62		11
No service requirement	3	
Plus 5 years of service	2	
Plus 10 years of service	6	
Age 60		24
No service requirement	9	
Plus 3-4 years of service	2	
Plus 5 years of service	5	
Plus 10 years of service	7	
Plus 20 years of service	1	
Age 55		3
Plus 5 years of service	2	
Plus 8 years of service	1	
TOTAL SYSTEMS		68

*Where alternative requirements are stated, the provision incorporating the shortest service period is shown.

(Source: TIAA-CREF)

Finally, we offer one additional peculiarity: sometimes almost nobody retires at the "normal retirement age." One respondent to our survey (a large university), gave 65 and 70 as respectively the "normal" and "compulsory" retirement age. Table C summarizes the institution's recent retirement experience:

TABLE C

PERCENTAGE OF STAFF RETIRING AT GIVEN AGES

Age at Retirement	Faculty	Administrative Professional	Office Staff	Service/ Maintenance
thru 62	12.5%	29.4%	42.9%	46.8%
63-64	0	19.6	19.0	20.8
65	15.6	13.7	9.5	19.5
66-67	9.4	15.7	7.1	6.5
68-69	21.9	9.8	14.3	5.2
70	40.6	11.8	7.1	1.3
Number	(32)	(51)	(42)	(77)

(Source: TIAA)

We should expect these percentages to change over time, but even this limited illustration demonstrates how careful one must be in evaluating institutional and employee retirement practices. The incidence of retirements depicted in the foregoing table is so highly differentiated by types of employees that one wonders what the institutions retirement policy is. The uninformed reader might well conclude that several policies are in force.

We now return to the first basic question: if postponing retirement to age 70 (or uncapping it) requires the fixing of a pre-70 "normal" or base age for retirement income planning, what should this pre-70 age be? Should it be age 65 for all institutions? Should it be for each institution the age which before the AADEA was either the "normal" or the "mandatory" retirement age? And what about colleges and universities whose pre-AADEA "normal" or "mandatory" retirement age was 70? Should they now move to an earlier base?

Each institution must decide what is most appropriate given its own particular circumstances. A uniform age for all institutions may be neither desirable nor practical. Public retirement systems will probably maintain their present age limits when "full formula benefits" become first available without actuarial reductions. TIAA-CREF plan institutions have a variety of options. We suspect that in the majority of institutions and plans, age 65 may emerge as the standard. We can see opportunities for planning even earlier base plan targets, and some TIAA-CREF plans will continue to feature later "normal" retirement ages.

2. The Adequacy of Retirement Income

The primary reason for setting a pre-70 retirement plan base is not to prevent older workers from staying on the job at least through age 70. The fundamental objective is to establish a retirement plan base that permits any worker to have a choice: to retire before age 70 at an adequate retirement income or to work a few more years and perhaps increase retirement income in so doing.

The adjustments by employees to the age-70 retirement age limit under the AADEA will vary from institution to institution. These adjustments depend not only on the pre-AADEA involuntary retirement age, but also when, in the employee's view, an adequate retirement income is first available. The majority of institutions with TIAA-CREF plans face a potential upward shift from a 65 base age. Public retirement systems with earlier full service benefit ages face the potential for extending service 8 years or more, a situation which could entail considerable additional cost to affected institutions. How many employees who would have retired prior to age 70 under pre-AADEA conditions, and how many additional years of service are now available to them are major factors in estimating the cost impact of the AADEA on individual institutions.

Whether or not employees decide to retire before age 70 depends in part on their perception of how adequate retirement income appears to be at specified ages and after the required number of years of participation. When public retirement systems and other defined benefit plans stipulate an age when "actuarialy unreduced full service formula benefits" can be claimed, this can be a powerful inducement for retirement if the employees perceive the stated benefit level to be attractive. Normally, benefit levels are easily communicated to employees in defined benefit plans, although final salary levels are not known until retirement is imminent. Defined contribution plans, such as those with TIAA-CREF, entail more difficulty in identifying clearly what a given plan's benefit levels can be. Each employee is informed annually of the level of accumulations, and estimating future pension income is possible only on the basis of assumptions about investment yields, premiums, and the annuity option selected.

3. Full-service Benefit Age

When TIAA, the AAUP, and the AAC discuss benefit adequacy they seem to prefer the term "normal retirement age." The confusion surrounding that term should by now be ap-

parent. The need exists for a concept, applicable to both defined benefit and defined contribution plans, which focuses attention on an important consideration of retirement planning — the adequacy of the benefit level for a career of service terminating at a reasonable retirement age. We propose a term frequently used in public retirement plans — "full-service benefit age."

The joint AAUP-AAC Statement of Principles on Academic Retirement and Insurance Plans suggests the idea when it stipulates as follows:

> The recommended objective for those retiring at the normal retirement age who have participated in the plan for at least thirty-five years is an after-tax income equivalent in purchasing power to approximately two-thirds of the yearly disposable salary (after taxes and other mandatory deductions) during the last few years of full-time employment.[8]

Independent of any judgment on the adequacy of the specified income objective, we observe that the statement includes language which fits both "full-service benefit age" and a "full-service benefit level." It refers indirectly to a career of service (at least 35 years) and suggests an income objective for this period (two-thirds of some after-tax salary base). The 35-year service reference, however, does not stipulate one specific age for retirement income planning purposes. The normal ages when faculty personnel begin their higher education careers often precede retirement plan participation by several years. These retirement plan starting ages plus the 35-year objective often put the potential "full-service benefit age" between 62 and 65.

Retirement age is a critical factor in benefit planning. The longer the annuity pay-out period (at any given rate of interest) the greater is the capital accumulation required to purchase a given level of benefit, or the smaller is the benefit obtainable with a given capital accumulation.

The retirement age also influences the length of time for making contributions and letting capital accumulate through the effect of compound interest. The shorter the service period, the larger must be the contributions to provide a given level of benefit at a specified retirement age.

Age 65 may be a reasonable age to use in retirement benefit planning, particularly where contributions are immediately and fully vested in the plan participant. Age 65 is late enough to provide a reasonable level of full-service benefits with contributions that most institutions and individuals should be able to afford.

While a good number of colleges and universities with defined contribution plans have established adequate retirement income objectives, a significant number have not. After 35 years of service, a 10 percent contribution plan combined with Social Security may not provide at age 65 attractive benefit levels for high salaried personnel. Institutions must be careful to establish retirement benefit objectives that are within their financial capabilities, but this is not the primary issue in the argument of this section. Here we are concerned with benefit adequacy as it relates to inducing an employee to retire early or to stay on the job as long as possible.

Many colleges and universities may be particularly vulnerable to employees' staying on the job for economic reasons once they realize that their annuity income can be increased appreciably by a postponement of retirement. Table C in Chapter Three and Table 2 in Appendix II illustrate dramatically what can happen to pension income with and without additional contributions between ages 62 and 70. Proportionately large increases are also possible for Social Security income. Well informed faculty members or other collegiate employees are aware of these relationships, and we must assume that such information will influence the decision of whether to retire before age 70 or to stay on the job a few more years to increase the retirement income level.

The revised draft of the AAUP-AAC policy statement also refers to inflation, and recommends that a study be undertaken at the earliest opportunity "to develop ways to alleviate this serious problem." While inflation is not a matter of concern stemming directly from the AADEA, institutional and individual adjustment to the law cannot be possible without the

recognition that inflation affects both employer and employee decisions. Defined contribution plans, such as those with TIAA-CREF, embody some protection against long-term inflation, whereas many public retirement systems contain an explicit provision for periodic, if not automatic, adjustment of benefits to help offset rising prices. The fear of inflation may well become a primary reason for some employees to take advantage of the AADEA. Many may decide to retire later than they would have under pre-AADEA conditions, or even later than they would prefer to retire.

Benefit adequacy at a reasonable age is an important variable in an employee's decision to retire or to continue working. Although benefit adequacy must be thought of in absolute dollar amounts, it can also be considered in terms of a replacement ratio. This expression refers to the percentage of salary being replaced by the retirement income benefit, for instance, the two-thirds of after-tax[3] salary mentioned in the AAUP-AAC "Statement." Institutions need to plan for replacement ratios that facilitate retirement at the desired age.

The size of the annuity is a function of the retirement age, the amount of capital accumulated through contributions and investment earnings, future investment returns, and the specific annuity arrangement chosen by the employee. If the capital accumulation is not large enough the replacement ratio may not reach the level the employee and the institution were anticipating. And institutional and/or employee contribution rates must be of a specific size over the 30 to 35 year accumulation period if they are to provide, at established investment yields, the final capital required. Table D illustrates this important planning relationship.

Institutions reviewing their benefit plans may want to keep in mind that inadequate benefits may provide a *prima facie* inducement for employees to stay on the job through age 70 or beyond. The enrollment conditions described in Chapter Three together with the postponement of retirements could create adverse personnel pressures for some colleges and universities during the 1980s and beyond.

TABLE D

ILLUSTRATIVE TIAA ANNUITY AND SOCIAL SECURITY BENEFITS, WITH RETIREMENT AT SELECTED AGES 62 TO 70*

	Retirement Ages			
	62	65	68	70
Final Academic Year Salary	$28,530	$33,500	$38,780	$42,760
Single Life TIAA Annuity (cash)				
10% TIAA plan	$ 8,648	$12,061	$16,780	$20,917
10% plan plus single Social Security	13,636	19,272	26,230	32,257
15% TIAA plan	12,972	18,092	25,170	31,376
15% plan plus single Social Security	17,960	25,303	34,620	42,716
Single Life TIAA Annuity (replacement ratio)				
10% TIAA plan	30.3%	36.0%	43.3%	48.9%
10% plan plus single Social Security	47.8	57.5	67.6	75.4
15% TIAA plan	45.5	54.0	64 9	73.4
15% plan plus single Social Security	63.0	75.5	89.3	99.9

*The replacement ratio shown here is the retirement income or income component divided by the final academic year salary. Our illustrative professor, a male born January 1, 1918, would reach age 65 in 1983. He began to participate in a TIAA plan in 1947-48 at the age of 29 and a salary of $2,800. AAUP data were used to construct a salary history to determine the TIAA accumulation and final salary.

(Source: TIAA)

Footnotes

1. In a more recent study, TIAA inquired into the prevalence of "normal retirement"at a stated age that was not considered to be "early." Among approximately 2,000 respondents, only 20 reported "normal" ages above 65. The definition of "normal retirement" may have varied considerably among the many respondents.

2. Draft of the revised "Statement of Principles on Academic Retirement and Insurance Plans," American Association of University Professors, and the Association of American Colleges, March 12, 1979.

3. The "after-tax" planning objective may sound reasonable, but for practical purposes it is well-nigh impossible to administer equitably since employees differ in their deductions for income tax computation. In addition, state and local taxes must also be considered. It may, in fact, be impossible to calculate in advance an "after-tax" benefit and thus the criterion may not be suitable for equitable benefit planning.

V. EARLY RETIREMENT: THE NEED FOR A REVIEW OF ESTABLISHED POLICIES AND DESCRIPTIONS OF WORKABLE ALTERNATIVES

If colleges and universities must find ways to reduce their personnel during the next decade, and if they have reasons for encouraging older workers to retire before they reach age 70, early retirement is an important policy option. Voluntary early retirement, however, may not be adequate for accomplishing institutional personnel planning objectives where there exist prospects for either a significant aging of staff or a need to reduce personnel because of adverse enrollment trends. Therefore, institutions may have to turn to Incentive Early Retirement (IER) programs.

We define here as IERt any arrangement between an employer and an employee designed to provide a tangible inducement in the form of a monetary or an in-kind reward for early retirement. We include under this heading such things as specialized or limited employment contracts, consulting arrangements, phased retirement, improved pension programs by means of supplemental annuities or stepped up contribution payments by the employer, severance pay arrangements, and post-retirement use of institutional facilities and clerical services.

1. Is Incentive Early Retirement a Constructive Answer to Personnel Pressures That May Face Higher Education?

Corwin and Knepper put the blame for forthcoming personnel pressures squarely on the AADEA: "The retirement-at-age-70 projections show a precipitous decline in the number of new faculty members hired." The authors estimate that under the AADEA the demand for new faculty declines by 65.3 percent. "If fewer faculty members continue teaching after age 65 than has been assumed..., the impact will be less dramatic." Phased retirement and IERt plans are among five policy options they recommend.[1]

Luis Fernandez approaches the issue somewhat more cautiously: "There is a continuing aging of faculty in every projection.... Even when early retirement is assumed..., the percentage of faculty in 1995 over the age of 50 is projected to be almost double its current level." His basic finding is as follows: "Under all projections, the level of hiring increases during the seventies and then declines during the eighties, bottoming out in 1985-86." On early retirement, he concludes that the statistical outcome is "disappointing." The absolute increase in the number of new junior faculty positions, as distinct from the percentage increase, is small. Fernandez recommends that institutions delay the installing of IERt plans: "... because early retirement has a quick 'once and for all' impact on hiring it seems best to delay its implementation until 1990. Other policies must be relied on to smooth hiring in the 1980s."[2]

This is a rather surprising finding when one looks at the figures Fernandez supplies in his own projections:

a. When IERt begins in 1979, a total of 9,432 full-time doctorate faculty members retire by 1999. This is 23.8 percent more than would have retired if IERt had been started in the 1990s.

b. When IERt begins in 1983, a total of 8,893 persons will have retired by 1999. This is 16.8 percent more than would have retired if IERt had been started in the 1990s.

The annual retirements produced are a smaller fraction of the total sample in the early years and make a larger numerical impact later when the total population has declined, but a 23.8 percent advantage for the early IERt startup is impressive. Although similar rates may differ for individual institutions some of them need to look for solutions wherever they can find them.

Fernandez' assessment of the one-shot impact is essentially correct. But he overlooks one important consideration: if a constant IERt rate is maintained, the total number of retirements will increase over some stated time, thus increasing the potential for total new hires. As the number of those reaching ERt increases, this effect can accelerate.

We disagree with Fernandez' recommendation to postpone IERt for another reason: the need to ease personnel pressures will exist throughout much of the 1980s and not during the latter part of the 1990s when demographic trends appear to be back on the ascendancy. Institutions experiencing the worst enrollment declines need every bit of help. And IERt is among the policy options that can help.

Carl V. Patton is also cautious about the effects of IERt on personnel structures: "...the early retirement rate has to be boosted quite high to make much of an impact on a faculty in quantitative terms." Nevertheless, he argues in favor of careful personnel and benefit planning that includes an IERt option, particularly where special demographic and economic circumstances require institutions to cut back personnel.[3]

Patton's faculty structure models give perhaps the best idea among the three studies mentioned why IERt may on balance have an unspectacular numerical impact in lessening aging as well as crowding. Many colleges and universities may have bi-modal faculty distributions caused by past enrollment patterns. Planners should understand that, aside from any prevailing age distribution of present faculties, persons retiring at age 65 in 1980, started their teaching careers during the 1940s, assuming they began their professional work at or shortly after age 25. Faculty hiring increased temporarily after World War II, under the impact of the G.I. Bill enrollment expansion. A person hired in 1950 at age 25 would have been expected to retire in 1990 at age 65. The AADEA put the new retirement ceiling potentially to 1995, and where retirement age is uncapped, beyond 1995.

When Fernandez and Patton speak of faculty aging, they do not have the G.I. Bill cohort in mind, but staff complements asembled during the enrollment explosion of the 1960s. A professor who was hired at age 25 in 1960 will be 55 years old in 1990. Early retirement policies will not have an impact on this cohort unless IERt eligibility is dramatically lower than would make any practical sense. Faculty aging results primarily from the impact of the number of staff presently in the 30 and 40 age brackets. When we speak of staff aging we have in mind both the increase in the average age of the staff and the increase in the percentage of staff age 60 and older. The average age of a faculty can and will increase during the 1980s even if the percentage of faculty in their 60s does not rise.

The number of persons remaining on faculties today who began their careers in the late 1940s and early 1950s is not very large, especially in the smaller institutions that may feel the oncoming enrollment decline the most. The faculty groups hired between 1949 and 1955 at one of the sample institutions in our study will have experienced an attrition of 80 percent or more in each entering class by the time any member in the group reaches age 60. We do not know whether this is an exceptional case, but our respondents indicate generally that they are not expecting many faculty retirements during the next five years.

With respect to the AADEA this is significant: one aspect of the emerging senior staff problem is that the number of retirements at pre-AADEA age 65 limits was expected to be relatively small in all but the largest institutions. Not enough pre-retirement staff is in the immediate pipeline. Now, with the AADEA, many of the retirements that were expected to occur have potentially been postponed into the late 1980s and even into the middle 1990s.

IERT addresses itself to this potential postponement of retirements, however small their numbers might be. The issue is how to speed up within the spirit and letter of the AADEA the rate of faculty and other staff retirement where the need arises to reduce staff and to provide opportunities for new hiring. The studies cited earlier stress the importance of other policy options and emphasize the importance of all long-range personnel planning dimensions. We turn to some of the broader personnel planning issues in Chapter Six.

2. A Note on Incentive Early Retirement Costs

IERt arrangements have cost implications for the institutions establishing the programs and for the beneficiaries whose income will be affected in some way.

a. *Cost Impacts for Beneficiaries*

Earlier in this monograph we illustrate how annuity and Social Security income may differ depending on when retirement benefits start. As a rule, in defined contribution plans, actuarially reduced or increased benefits are paid depending on whether benefits start early or late. Here, we take up the foregone income issue.

When we look at the financial side of the IERt problem from the point of view of the employee, foregone income looms as the major potential deterrent. The literature concerning pension benefits often refers to lower income tax brackets for persons choosing part-time employment or early retirement; references to foregone income seldom appear. Unless an employee has been planning carefully and with full information, a sudden consideration of an early retirement option may only look appealing if it embodies a strong compensatory financial incentive.

Normally, we cannot expect employees to have adequate independent income capable of absorbing the financial shock of wages and salaries lost as a result of early retirement. If employees have made their retirement plans with one age in mind and later consider an earlier age at which to retire, they will want to ask whether they are losing money by so doing. If the loss is significant, they may stay on the job until an age when they can claim what they consider to be an adequate retirement income. Some evidence shows that inflation helps postpone retirements exactly because employees feel that their retirement income is no longer adequate. (See Chapter Three.)

The often made point that a retired or partially employed person will be in a lower income tax bracket is at best a half truth. The lower tax bracket is not the issue; disposable income is. To be in a lower tax bracket one also has to have a reduced income or one must be able to rely on tax exempt or tax sheltered income. Phased retirement usually leads to smaller salaries and smaller taxes. The employee must decide whether or not he or she can afford to live on the smaller disposable income.

The early retirement age is another important matter. The double exemption becomes available to a taxpayer at age 65; before that age the single exemption prevails. The fundamental question focuses on the size of the disposable income left after an employee has chosen to take a part-time employment contract or full early retirement. Individual tax situations differ markedly, and we cannot know what will happen except as we study carefully each individual case.

Finally, normal retirement income from a basic pension plan plus Social Security generally

entails a drop in gross income from full-time wages or salaries. We can expect gross income to be even lower under early retirement arrangements unless appropriate and adequate inducements are built into the latter. In financial terms, IERt depends for its success on the extent to which the gap in otherwise foregone income can be closed. It also depends on the willingness of potential retirees to settle for less.

b. *Cost Considerations for Institutions*

If the AADEA lead to postponements of retirement, full-time compensation will reflect the continuing cost plus whatever rate of inflation is built into the aggregate compensation budgets of those remaining. In the Appendix we provide an illustration of how this maximum budget boundary might reflect what an institution can afford for IERt plans.

A key consideration is whether it is worth designing IERt plans when it is impossible to determine in advance how many employees will retire early without inducements. Ideally, why should an institution pay for a person's retirement when it can obtain the same result without cost? The question is logical, but we cannot determine in advance who will and who will not retire early without special inducements. Therefore, the more an institution knows about employee plans and the more information it has about staff attrition, the more precisely it might be able to estimate in advance what the normal probabilities for voluntary early retirement are. Afterwards, it becomes a matter of weighing the risk factor and trying to minimize it. Once an IERt plan is in place, inevitably some persons who might have retired voluntarily without the special inducements eventually receive benefits.

We estimate that many of the IERt options mentioned in the following sections would save an institution from modest to significant sums of money over the alternative of having particular employees stay on the job full time. A major cost question arises under ERISA if certain benefits must be fully funded in advance. Another important consideration must be whether or not employees who retire early have to be replaced. If all persons must be replaced, IERt plans probably will not save money and may actually lead to higher total costs.

Some institutions with declining enrollments may ironically be in a better position to finance IERt plans. These institutions are concerned about reducing their costs, and because they need not hire replacements they may improve their financial position through early retirements. The costs of most IERt participants are lower than the costs of full-time employees. A comprehensive long-range personnel policy is prerequisite for designing sound IERt programs.

3. IERt Arrangements in Higher Education

IERt arrangements for colleges and university personnel — especially for faculty members — have been on the increase since 1970. Precise tabulations of available opportunities do not exist, but there is good information on the great variety of available options. Carl V. Patton describes in detail numerous IERt approaches in *Academia in Transition: Mid-Career Change and Early Retirement*. Our own survey, summarized in Appendix I, reports on arrangements for 24 colleges and universities.

The AADEA do not directly affect or alter IERt policies in effect in higher education, but they do extend the mandatory retirement age to 70. Existing IERt arrangements may produce additional costs to institutions, particularly where plan outlays are understood to continue until a retired beneficiary has reached his or her 70th birthday.

A significant problem with respect to IERt benefit plans may arise under ERISA and the latest changes proposed by the IRS in the taxation of deferred compensation. Some IERt plans that had been presumed to meet all legal requirements a few years ago, may no longer do so in their entirety or may entail tax consequences that could not have been foreseen when the pro-

grams were first installed. After describing some of the IERt program alternatives, we shall consider a few of the most pressing issues raised by ERISA and the new IRS regulations.

a. *Low or Zero Cost IERt Arrangements*

One frequently mentioned deterrent to ERt is that employees fear losing contact with an accustomed environment, with colleagues and students, and with a longstanding routine. Therefore, providing certain amenities such as access to an office, to laboratories, to libraries, to health services, and to physical education facilities emerges as an inexpensive inducement. Supplying limited clerical assistance would be slightly more costly. Several respondents indicate that their thinking on the subject of IERt has not gone beyond this stage.

Going somewhat further, the next IERt option may embrace participation in some of the institution's group insurance plans. Life and h lth insurance are among the most frequently mentioned preferences. Employees rank these high on the list of essential benefits even after mandatory retirement.

We have come across some esoteric benefits, such as continuing country club memberships, housing subsidies continuing into retirement, free student help for yardwork and other physical chores, and in the case of former executives free or low-cost transportation on a limited basis.

Finally, several forms of the continuation of tuition benefits appear among the responses to our questions. First, there exist provisions for tuition benefits to the children of older employees. This may not be an often used benefit, given the age of most of the eligible employees, but neither is the occurrence all that unusual. Second, many institutions provide some form of tuition benefit to spouses of employees. This benefit, even though the employee is retired, may have a high value to the beneficiary. Free tuition is also available to employees whether they are members of the faculty or not. In some institutions retired employees are eligible for such benefits.

b. *Consulting Contracts*

Some institutions, in the absence of formal IERt plans, offer an arrangement that is best described by the term "consulting contract." The employee, normally a member of the faculty or an administrative officer, performs a specific well-defined service. This can take the form of a research assignment, a report dealing with an important policy question, or ad hoc projects suited to the skills of the employee.

One problem inherent in this type of option is the probability that while institutions may have on tap many possible projects and tasks that are worth pursuing, matching the work to be done with the talent available at a given moment may not always be possible. And individuals with well-known expertise may be able to sell their services at other institutions for more money than their own employer may be willing to pay. Nevertheless, this option is worth considering, since among other things, it may not entail some of the pitfalls inherent in what are more traditional IERt arrangements.

c. *Phased Retirement*

Under this option, institutions and employees have a variety of opportunities short of the complete termination of employment. At one extreme is the so-called "employment contract" entailing a minimum of service for a fee, or major regular work assignments outside the employee's former duties for significant remuneration including non-salary benefits.

Normally, phased retirement refers to a reduction of duties within an employee's normal work assignment. Reducing the teaching load, limiting student counseling, or relinquishing administrative chores are among the obvious choices for members of the faculty. A reduced salary goes with the diminished work load. Employers may continue retirement plan contributions

based on full time salary, salary actually paid, or some other basis. And group insurance coverage may be continued in full or on some reduced basis for eligible individuals. Institutions should consult their benefit plan advisors, however, before making any decision. Supplemental annuities can also be added to the package within the limits of the law.

Several reasons may make phased retirement an attractive option from the point of view of the employee. Sudden retirement can be very unsettling, and a gradual phasing into full retirement may be preferable. Also, not every employee may wish to begin collecting a pension in advance of at least the "normal" or "full service benefit" age, especially if this should mean a permanently reduced annual income. Phased retirement provides an opportunity for receiving a salary which, with other income sources, might provide an adequate income until it is time to claim annuity and Social Security income.

Phased retirement and the other inducements mentioned earlier have the great advantage for the institution of not producing a significant incremental cost. The disadvantage lies in the very absence of a strong monetary incentive. While money certainly is not the sole or primary motivator for higher education personnel, financial considerations are always important to employees in an ERt decision.

Many college and university employees would not qualify for most of the arrangements mentioned above. And the low-cost-approach to IERt may see an institution lose its most successful and most affluent employees. The importance of monetary incentives can be deduced at least in part and indirectly from Patton's findings: 43 percent of his respondents who retired early came from the professions, 40 percent from the natural and social sciences, and only 14 percent from the humanities. Institutions looking for significant staff attrition through ERt may have to offer stronger financial inducements than are inherent in the options mentioned so far.

d. *Pension Supplements, Pension Premium Continuation, Salary Continuation, and Other Arrangements*

The brief summary given here of various IERt arrangements stresses concepts rather than issues of law and ERISA compliance. Section 4 returns briefly to certain aspects of recent law that may affect existing or future IERt arrangements. A matrix which identifies some of the broad ERISA and federal income tax implications for selected options follows Section 4.

ERISA defines as a pension plan any "plan, fund, or program" offered by an employer for the explicit purpose of providing retirement income to employees or resulting in a deferral of income by employees to termination of employment or beyond. An ERISA pension plan must meet certain requirements concerning participation, vesting, funding, reporting, and disclosure. It must cover a defined class of employees or apply to all.

ERt arrangements of the kind discussed in this section may or may not be pension plans subject to ERISA, depending on how they are structured. Although occasional ad hoc arrangements between an employer and relatively few employees may be possible and may not be considered a "plan, fund, or program...," any formalization of IERt brings with it an increasing probability that an ERISA-type pension plan has been established. In addition, some observers believe that participation in ERt arrangements can be limited to individuals selected by a special committee.

At present, some kind of *pension premium continuation* seems to be the most popular IERt option. The popularity stems from the employee's desire to receive eventually an annuity income equal to what had been expected if ERt had not occurred. In principle, the employer promises to continue the premium payments into the annuity fund until the former employee reaches the age when normal (or as the case may be, mandatory) retirement would have occurred. Premium continuation generally postpones the claiming of annuity payments by employees

who retire early until the age when either normal or mandatory retirement would have occurred, although other arrangements can also be made.

A number of variations on the premium continuation theme appear. The simplest version fixes the premium payment at the level reached when the employee began ERt. In some instances, the annual premium moves up each year in some proportion to increases in employee wages or salaries. The escalator may be tied to the average increase in professors' salaries, to general wages at the institution, to those in the job classification of the retiring employee, or to the Consumer Price Index.

Legal problems may arise for institutions whose IERt arrangement includes a pension premium option if the same institution decides to discontinue premium payments for older workers under the AADEA. Such a potential conflict does not occur, however, if the premiums in the IERt arrangement cease at what would have been the "normal" retirement age.

Another option is a *salary continuation plan*. Two seem to be in relatively wide use. The first involves the payment of some percentage of the former salary until what would have been the "normal" or the "mandatory" retirement age. The percentages range from 25 to 50. This option may be combined with part-time employment, resulting in a somewhat larger part-time salary than would be earned had the employee's pay been cut in direct proportion to the reduction in employment. The second salary continuation alternative adds an escalator which follows either the institution's wage and salary increases, the rate of inflation, or some specified percentage. Salary continuation after termination of employment could be provided either (1) through individual employment contracts or (2) through an unfunded deferred compensation plan for a select group of management or highly compensated employees.

A third option is *severance pay*, which appears in IERt plans as either a primary option or in concert with other benefits. Severance pay provides for payment of a fixed sum, paid either as a single sum or in multiple installments. Although the latter form is somewhat similar to salary continuation, the philosophy is different.

In theory, the "one lump sum" severance pay option provides institutions with a great deal of flexibility. The maximum severance pay arrangement encountered in our survey, however, seems to be one year's salary, an infrequent institutional choice. Three to six months of severance payments, each equal to the last monthly salary earned, are more common. Larger settlements are available on occasion to high level administrators, such as former college presidents.

Another option is the *supplemental annuity*. Supplemental annuities, which become effective at ERt, permit an employee to receive a retirement income immediately. Patton describes several alternatives and distinguishes between individual and group annuity plans. The amount of the annuity can be set in relation to the median of a salary range or to an average salary level, thus providing a comparatively greater incentive for ERt to lower paid personnel.

Some of the arrangements reported to us fall into the defined benefit category. Accordingly, the contract may stipulate that retirement income at ERt should be some percentage of recent salaries earned. The retirement benefit is then composed of the annuity, the Social Security benefit (if any), and whatever supplement is necessary to bring the total income to the formula level.

A fifth possibility involves the use of an "*excess benefit plan.*" This is a complex option requiring coordination with the provisions of a regular retirement plan. It is an unfunded arrangement and credits to it are not taxed currently.

The IRS allows employees another option which may facilitate ERt. If time permits adequate long-range planning for ERt, an individual can arrange to supplement other sources of income by entering into a salary reduction agreement setting aside before-tax dollars in a 403 (b)

annuity contract (an Internal Revenue Code provision). When an employee chooses the 403 (b) deferred annuity approach, however, he or she does not normally consider the action as taking advantage of an IERt inducement. After all, the employee is allocating his or her own regular salary. An inducement would entail an additional employer payment.

Some of the approaches that might be used to make early retirement financially attractive may involve legal or tax complications. Section 4 includes a discussion of some of these, and the matrix at the end of the section suggests some of the broad ERISA and income tax implications for selected approaches.

4. Caveat Emptor: Consult Your Legal Counsel and Your Retirement Plan Carrier

The IERt options listed above may not conform in every respect to all legal requirements. A general caveat is therefore in order: each college and university with an existing IERt program (or considering one) should consult legal counsel as well as its retirement plan carrier to make sure that IERt plan provisions meet ERISA requirements. Counsel should further inform institutions about the probable (if any) tax consequences of specific arrangements so that the institutions can inform eligible employees.

a. *Some Major Issues Under ERISA*

ERISA requires that institutions and employees understand the difference between a "pension benefit plan" on the one hand and "severance pay" plans on the other hand. DOL regulations on the subject distinguish between arrangements providing retirement income to a former employee, directly or indirectly, and payments to employees that are strictly part of a severance pay program.

A severance pay plan is *not* a "retirement arrangement" under ERISA if it meets the following DOL guidelines: that payments are not contingent upon the employee's retiring; that they are limited to the equivalent of two years of annual compensation, and that they must be paid within 24 months after termination of employment.

The DOL intends to bring under its jurisdiction any arrangement intended to provide retirement income for employees. The label used is immaterial and the arrangement need not be in writing to fall under ERISA. The AADEA may cause existing IERt contracts to extend beyond the 24 month severance pay limit. Institutions should therefore review such programs carefully.

Neither ERISA nor the DOL provide guidance on when ad hoc IERt arrangements turn into ERISA plans. Our survey and Patton's study indicate that IERt programs have gone beyond the ad hoc stage in higher education. Some of the respondents to our survey indicated, however, that they have no formal plans and only occasional special arrangements.

We cannot describe here what all the ERISA entanglements might be, but we can state our concern: IERt arrangements must conform to ERISA requirements if they provide retirement income to former employees and if they cannot be construed narrowly as severance pay arrangements in conformity with the DOL definition. ERISA requirements may impose financial burdens, and institutions with limited resources may view these as an obstacle toward accomplishing reductions in senior staff at a time when the use of IERt alternatives may be an important institutional policy tool.

b. *IRS and Its Proposed Treatment of Deferred Compensation*

Deferred compensation has been one of the incentives used to induce employees to retire voluntarily before they reached the mandatory retirement age. One of the criteria guiding the IRS in determining what was taxable income and what constituted deferred compensation was embodied in the concept of "constructive receipt." Before the proposed regulations were

published, the rule was that an employee was *not* "in constructive receipt" if, (1) the employee had an agreement with the employer to receive compensation on a deferred basis, (2) the agreement was made before the employee obtained an unqualified and unconditional right to the compensation, and (3) the agreement was "unfunded." If the compensation was not "in constructive receipt" it was not currently taxable.

The proposed IRS regulations abandon the traditional "constructive receipt" criterion. They hold that, if *at the employee's election*, an amount of the employee's fixed basic or regular compensation is deferred to a taxable year later than that in which the amount would have been received, *but for the election*, then that amount is currently taxable.

This proposal hinges on the definition of "deferred compensation," and arrangements that fall within its meaning lose the tax advantages of deferring income. In this sense, the regulation could remove one method of encouraging early retirement, unless the employer assumes the burden of paying the tax on the amount of income that is being deferred. The regulation does not prohibit the deferring of income; it only prevents the deferring of the tax.

These legal complications represent a challenge to institutions and employees in the design of IERt plans. While they limit what may be affordable or allowable and while they may create disincentives here and there, the laws should not be interpreted as establishing a prohibition of IERt plans. If IERt becomes sufficiently important to institutions, they will find the ways and means to implement it.

ERISA AND IRS IMPLICATIONS OF CERTAIN IERt ARRANGEMENTS

Arrangement or Plan Component	Are There ERISA Consequences?	Are There IRS Regulations and Income Tax Considerations?
1. PHASED RETIREMENT	No	Probably not
Paid current compensation for part-time services rendered (e.g. half-time teaching). Amount of compensation can be at the discretion of the employer (e.g. could exceed half-pay for half-time work).	This is an employment practice and therefore not a pension plan under ERISA.	Current compensation taxed in year received. If retirement premiums are paid, see #2.
2. CONTINUATION OR PAYMENT OF ANNUITY PREMIUMS	Yes	Yes
This arrangement might be used in conjunction with phased retirement, salary continuation, some other payment arrangement, or as the only component offered.	If offered to more than a few, arrangement could be declared a pension plan subject to ERISA requirements.	To be tax deferred, contributions must fall within Sec. 415 and Sec. 403 (b) limits based on current compensation from the institution. Contributions in excess of Sec. 415 limits could be tax deferred under an "excess benefit plan."
3. SALARY CONTINUATION (e.g. some specified percentage of base salary)	Yes	Yes
This arrangement might be handled as a deferred compensation arrangement where there is no choice as to current receipt of additional compensation.	Limited ERISA requirements for compensation when offered to a select group of highly paid or management employees.	Deferred compensation with no choice as to current receipt of compensation would be tax-deferred until year received.
The arrangement might be handled as an employment contract.	If employment contract offered to other than a select group of management or highly compensated employees and to more than a few, arrangement could be declared a pension plan subject to ERISA.	If handled as an individual employment contract and not a retirement plan, payments would be taxed in the year received. If handled as a retirement plan, must be funded; contributions taxable as described in #2 above.

Arrangement or Plan Component	Are There ERISA Consequences?	Are There IRS Regulations and Income Tax Considerations?
4. PURCHASE OF A SUPPLEMENTAL ANNUITY	Yes	Yes
This might be used to start the annuity at an earlier age (say 62) and to raise the annuity to its approximate level at a later age (say 65).	If offered to more than a few, the supplemental annuity may be declared a pension plan subject to ERISA but no advance funding required.	See #2 above.
The purchase might be made with a one-time lump-sum contribution or with a series of annual contributions.		Note that in the case of a lump-sum payment, contributions in excess of Sec. 415 might be rather large. The excess would be taxed in the year paid unless an "excess benefit plan" is used. (See note below.)
5. OTHER PAYMENTS BY THE INSTITUTION	Yes	Yes
a) Institution makes a periodic payment to individual equal to the annuity between ERt (say age 62) and some specified age (say 65), at which time the regular annuity becomes available.	If arrangement is offered to more than a few (with or without an employment contract), arrangement would be declared a pension plan subject to ERISA.	See #3 above.
This arrangement might utilize an employment contract (in which case the payment should be defined a compensation). The treatment of the arrangement under ERISA and for taxation depends upon how widely it is used.		
b) Other arrangements in which the institution commits itelf to periodic payments for a specified time span or for the individual's life time.	See #3 above.	See #3 above.
6. SEVERANCE PAY	Yes	Yes
As an IERt arrangement or retirement supplement: amount (e.g. 3 year's pay in a lump-sum or payment of salary for 3 years) is at the institution's discretion.	If offered to more than a few, arrangement could be declared a pension plan subject to ERISA, unless it met exemption requirements making it a welfare plan.	If it is a pension plan, Sections 403 (b) and 415 would apply for purposes of taxation of advance funding. An "excess benefit plan" could be used in order to defer taxes.
As compensation accompanying the elimination of jobs or departments, closing of schools, or termination of staff for cause: these are the areas of greatest potential use.		If it is a welfare plan or not subject to ERISA, payments would be taxed when received.

Excess Benefit Plans

The advantage of an excess benefit plan is that it is not subject to ERISA requirements nor to IRS tax rules for pension plans. A plan must meet the following requirements to be considered an excess benefit plan: it must be unfunded; it must be coordinated with a retirement plan; and the employer makes "credits" as opposed to "contributions" in the employees' behalf. Additionally, employees can probably not make any contributions through salary reductions to an annuity contract in the same year their excess benefit plan accounts are credited.

Note: We advise again that each institution consult with its legal counsel as well as with its retirement plan carrier.

Footnotes

1. Corwin, Thomas M., and Knepper, Paula R., "Finance and Employment Implications of Raising the Mandatory Retirement Age for Faculty" (Washington, D.C.: American Council on Education, December 1978), p. 29.

2. Fernandez, Luis, *U.S. Faculty After the Boom: Demographic Projections to 2000* (A Report for the Carnegie Council on Policy Studies in Higher Education, April 1978), p. 4-5.

3. Patton, Carl V., *Academia in Transition: Mid-Career Change or Early Retirement* (Cambridge Mass.: Abt Books, 1979), p. 182.

VI. DIMENSIONS IN LONG-RANGE PERSONNEL PLANNING UNDER THE AADEA

The AADEA provide older employees with the opportunity to work beyond the age when most people expected to retire before the new legislation was enacted. During the legislative debate, industry and higher education argued against the age 70 retirement limit. The temporary exception for tenured personnel in higher education and the exemption for high-level executives represent a very modest response by the Congress to the serious concerns expressed. Maybe it is appropriate that the legislators were not convinced about the merit of arguments, but most of the issues raised during the debate are still with us. This chapter considers briefly a few of the issues requiring the attention of college and university administrators, as well as of faculty and non-faculty personnel.

1. Personnel Planning During the Transition

Distinguishing between the period of transition for the new law and the long-range normal expectations of when people retire once accustomed to the new ground rules is useful. The transition period may extend over a number of years until some of the most immediate legal uncertainties are cleared up and institutions establish appropriate policies and plans that incorporate the new legal requirements.

One of the most immediate transition effects arises when employees who had been expected to retire within the next twelve months decide to stay on the job. One of our survey institutions has 18 non-academic workers who will reach their 65th birthday during 1979; only one of them now plans to retire. The institution's personnel manager reports considerable uneasiness and some embarrassment pervading administrative circles. Some of the employees who have decided to stay on "are showing their age," as he puts it, and have been kept on the payroll because it would have been "cruel to fire them so close to the anticipated age 65 retirement."

Although some observers have recently argued that the AADEA will not change established retirement practice significantly, we suspect that experiences similar to the above will be repeated frequently across higher education this year and next. In such instances, many colleges and universities will probably let the matter ride until they introduce appropriate counseling and personnel evaluation procedures that now may be lacking.

Another aspect of the transition arises with the 1982 effective date for AADEA compliance for tenured personnel. Institutions have a choice either to wait until July 1, 1982, or to extend AADEA privileges to tenured personnel immediately as some have already done. Regardless of which of the two options they choose, colleges and universities can begin to ascertain the plans of tenured personnel approaching the former mandatory retirement age (or nearing the normal retirement age), and in particular whether they intend to stay on the job or retire early.

Not every institution in higher education faces the transition to full compliance in terms of a rising retirement age. We show that numerous colleges and universities had age 70 retirement policies in pre-AADEA times. Other colleges and universities have been affected by state laws

uncapping the retirement age ceiling. Even though the specific impact of the AADEA may be different in these instances, the topics about to be discussed are nevertheless relevant to the affected institutions.

2. Personnel Structure, Long-Range Staff Attrition, and Personnel Policy Planning

The transition period for many colleges and universities is a time for assessing the adequacy of available information and personnel plans in light of the new legislation. In conversations with administrators we learned of a widespread lack of information on the nature of personnel structures. Thus there must be a commensurate void in these administrators' understanding of the implications for future staffing requirements. Maybe we should not have been surprised by the high degree of uncertainty in view of the newness of the legislation. But the need for long-range planning antedates the AADEA. While many colleges and universities give evidence of very advanced planning expertise, a large number project an image that shows the lack of basic information and planning. A number of individuals told us frankly of their uneasiness in the face of their institution's inadequate perception of long-range staffing requirements, particularly for faculty personnel.

Perhaps colleges and universities are fortunate that the new law allows them until 1982 to establish appropriate policies for tenured personnel. This provision gives those who have not already done so time to begin some careful long-range personnel planning and, above all else, time to put together the basic information necessary for meaningful planning.

Appendix III touches on several information needs, ranging from enrollment projections or plans to cost implications of specific IERt options. Underlying any kind of long-range personnel plan, however, is the need to understand the long-range consequences of existing staff structure. The plan itself should embody policies and targets for its control in the future.

The AADEA emphasize age as the primary planning target, but employers generally must take into account additional factors. Some of these derive from other federal legislation, for example, affirmative action plans. Others have to do with making sure that appropriate skills are available within particular personnel components for carrying out the objectives of the organization.

Higher education sometimes claims that its problems in this respect are generically different from those encountered by other employers. The difference is perhaps more one in the degree of difficulty than in the nature of the problem. Education and learning outcomes are certainly more difficult to measure than is physical industrial output, but the ingredients for staff planning are similar. Higher education may have the distinction that it is somewhat lacking in staff planning expertise when compared to other segments of the economy, but planning know-how outside of higher education may be less prevalent than has been claimed.

The existence of the tenure system in higher education complicates long-range staff planning. It may put more rigidity into faculty personnel structures than is present elsewhere in the institution. A college with a very high percentage of tenured staff may have more difficulty adapting to severe reductions in the demand for its services than an institution where the percentage of tenured personnel is less. On the other hand, solutions to the staff pressure problem do exist, and a first step in planning is to discover where and why the pressures arise.

Here we call attention to the phenomenon of long-range staff attrition and in particular to the concept of age-specific separation rates discussed in Appendix III. Existing staff structures under the impact of the AADEA can be described in terms of the prevailing age distribution of various personnel components. This description may include distinctions of academic disciplines and of the normal functional administrative sub-divisions. Long-range planning can

build upon an analysis of historical age-specific staff separation rates either in the aggregate or for the selected components.

Past attrition rates, however, may not apply in the future. Therefore, institutions need information on employee expectations regarding the timing of retirement. But even without such information, institutions can develop staff planning models that take into account historical and other hypothetical age-specific separation rates under a variety of enrollment and other relevant assumptions. Information on age-specific staff separations over time appears presently to be a very scarce commodity in higher education.

Such information is useful for many reasons. One of them concerns the planning of incentives for staff to retire early, and we have devoted here considerable space to this issue. Another topic is related to questions of staff development and of where in the staff age structure a need for staff development may arise because of changes in enrollment or funding patterns. In smaller institutions such fine-tuning may appear to be inappropriate at first glance, and an aggregate approach for assessing the problem might serve well enough initially. At the minimum, however, the detail should generally address itself to departmental personnel structures since changes in enrollment do not tend to affect alike all departments or disciplines.

Earlier we have pointed out that some institutions may face the prospect of significant enrollment declines during the 1980s. Some colleges and universities for this reason, as well as for others, may wish to speed up staff attrition particularly among older employees.

3. Personnel Planning and Retirement Preparation

The AADEA address themselves to the age when retirement can be required of an employee by an employer, and information on employee attitudes about retirement is an important planning ingredient. Colleges and universities should therefore consider seriously how they might improve their understanding of what employees need to know and how they feel about retirement.

James M. Mulanaphy and Carl V. Patton discuss some of the recent developments.[1] Both authors emphasize retirement preparation for the employee and dwell on how counseling and information programs can help prepare the prospective retiree. They stress the importance of financial information and counseling, particularly on pension benefits, Social Security, and other financial matters. Other topics of interest to employees, according to the authors, are health care, legal affairs, how to arrange for proper housing, how best to use retirement years, how to adjust to new conditions and environments, and a variety of even broader issues. Mulanaphy found that financial questions were of most interest.

Patton, looking at a sample of respondents who retired early, concludes that "few interviewees had made long-range plans to retire early," and that "it should not be surprising that a majority of them had not prepared themselves specifically for early retirement financially or in other ways."[2] Mulanaphy recommends that pre-retirement counseling or information be provided sufficiently early so that participants *can make as well as implement plans*. In spite of the interesting and hopeful beginnings, Mulanaphy says: "... most educational institutions have not been deeply committed, beyond active participation in financial support through pension plans, to helping their employees with personal planning for retirement."[3]

Beyond this we can probably assume that most institutions have an inadequate understanding of the retirement income needs of their employees and of when their employees expect to retire. Many colleges and universities may have information on anticipated retirement dates, but normally without very much advance notice.

When employees reach their late 50s or early 60s, a dialogue between them and the institution should begin. That dialogue should focus squarely on the conditions necessary to effect an early retirement. Solutions to the financial obstacles are possible even under the somewhat en-

cumbered paths set up by ERISA and the IRS. The non-financial issues may be more difficult to handle. But before institutions can build solutions into their long-range plans, they must know the needs of their employees.

Financial considerations are crucial to the employee when he or she contemplates retirement. If an institution has an adequate primary retirement plan, much of what otherwise would be a concern is allayed. Postponed retirements under the AADEA may worry institutions, and the worry may not be because of staff incompetence but because postponed retirements may hamper institutional vitality in a rapidly changing environment. The adequacy of the primary retirement plan then implies that its retirement benefits start early enough and be large enough so that few economic reasons encourage older workers to stay on the job to or beyond age 70. We hasten to add that according to the AADEA, employees are entitled to work until age 70. After institutions have given them every opportunity to retire early, and they still choose to stay on the job, this is their right.

There is a fundamental difference between pre-retirement planning that focuses on post-retirement needs of employees from their perspective, and personnel planning that takes into account post-retirement needs of employees within the institutional context. In the first instance, strong evidence exists that voluntary programs work best, and confidentiality may be essential for success. For these reasons, some institutions prefer programs that are sponsored by peer groups within the various employee classifications. Mulanaphy and others would make voluntarism a prerequisite for employee-centered planning.

On the other hand, institutions that take their personnel planning seriously cannot limit their information gathering to what can be learned through a voluntary employee-centered retirement preparation program. Colleges and universities can learn what they need to know either from special studies or through the normal staff evaluation and counseling process. While pre-retirement preparation on behalf of the employee can yield useful information, institutions must not consider it as either the principal or correct channel for obtaining most of the information necessary for long-range personnel planning.

Finally, institutions might not want to take too active a part in pre-retirement counseling for a legal reason: if the advice — or what is perceived to be advice — turns out to be acceptable to the employee everything is fine. But if the opposite should be the case, the institution may have exposed itself to litigation. The governing boards of some institutions in higher education expressly forbid any officers of the administration to give any kind of financial counseling beyond the mere providing of information.

4. Performance Evaluation and the AADEA

Corwin and Knepper recommend *new techniques* in performance evaluation as a means for moderating the impact of the AADEA. Whether or not the methods of evaluation should be new is perhaps a separate issue. Job performance evaluation becomes particularly important under the AADEA since the law stipulates that older employees may be dismissed if they can no longer perform tasks normally assigned to them.

Performance evaluation can be useful in performing three main tasks: (a) to decide promotions and to grant merit pay increases; (b) to measure progress in program and staff development activities; and (c) to build up documentation to support and defend employment terminations.

At a conference on aging, Peter Drucker and others emphasized the importance of job evaluation and they referred to the need for much more formal administrative procedures not merely because of the AADEA, but for the sake of rational planning, cost effective hiring and promotion, and equitable personnel management generally. Job evaluation procedures are also a tool that can protect the institution in litigation.

Each different purpose of evaluation may have its own appropriate methodology. Promotion, for instance, requires not only that an employee perform assigned tasks competently, but that he or she possess the qualifications for the position into which promotion is being considered. Promotion to higher faculty rank need not mean a change in responsibilities but rather an improvement in skills or performance or the recognition that one has adequately served one's apprenticeship. Sometimes promotion simply means that the proper seniority has been achieved. Job evaluation that entails termination before the mandatory retirement age may require procedures different from routine evaluations that presume an employee will be kept on. Ideal ly, one might think that no distinctions are necessary, but in practice this is not so; job evaluation procedures vary for different types of employees, they change depending on circumstances, and they differ according to who does the evaluating.

Corwin and Knepper seem to imply that performance evaluation may help reduce personnel pressures arising when older employees postpone their retirements under the AADEA. A sound evaluation system does hold the promise of identifying incompetent workers across the full range of ages, but its potential for reducing personnel pressures is limited. If voluntary outmigration, dismissals, death, sickness, and voluntary early retirement do not eliminate all problem employees, a sudden burst of evaluation ingenuity is not necessarily the correct prescription.

Despite the prospect that the number of terminations resulting from performance evaluation is not likely to reduce significantly the number of persons on collegiate payrolls, evaluation remains an important part of a personnel planning and management system. Institutions should recognize the limits of evaluation procedures, and tailor their plans accordingly. Like IERt, pre-retirement counseling, and other related programs, evaluation has a place in personnel management. Within the AADEA framework, its function is relatively limited. In the broader institutional context, its importance is such that a careful analysis would go well beyond the objectives of this monograph.

5. Long-Range Personnel Development and the AADEA

An indirect impact of the AADEA may arise when higher education employees who are now between 35 and 45 years old approach their "normal" or "full-service" retirement benefit age. This group — given Fernandez' and Patton's data on staff distribution patterns — may then be so large that even after long-term attrition takes its toll, extensions of service through age 70 may cause hardships for institutions. But this future event is so distant and so uncertain that blaming the AADEA now seems premature.

Some observers argue that the AADEA create the need for personnel development programs which go beyond the traditional practices long a part of professional work and advancement in higher education. The need arises from the prospect of too much staff and two few jobs during the 1980s. "Faculty development," "second or new career options," and "retraining" are new buzz-words in a rapidly expanding vocabulary.

The idea that staff reassignment can alleviate some of the personnel pressures has merit. The extent of its impact, during the 1980s, however, is not likely to be significant enough to relieve the pressures for the hardest hit institutions. Most of the writers dealing with staff planning in this broad sense start with the premise that teenage undergraduate enrollment is declining. Other analysts focus on the improvement of educational services independently of any prospective changes in demand.

Institutions contemplating a retraining program face a number of difficult decisions. Who will participate, and how will the selection be made? What are the costs associated with retraining, and do the results justify those costs? The timing of retraining is also important both in terms of when it begins and how long it lasts. Institutions should consider these issues carefully

before they begin a personnel development program.

None of the personnel options we discuss can individually relieve the pressures facing higher education. Taken together, however, in a cohesive personnel planning and management system, the options may help certain institutions significantly.

The unanswered questions about IERt, pre-retirement counseling and personnel development are not nearly as serious as the fundamental issues that some institutions may eventually face. The AADEA will be the least of the problems for institutions caught in the enrollment crunch. Such colleges and universities will need to find solutions to such agonizing questions as the following: How does an institution eliminate a whole department; how does it decide how many departments and which ones so as not to endanger the marketability of what is left? Which administrative offices can reduce staff size and program scope, and can any administrative departments be eliminated? How does an institution dismiss tenured staff, what kind of severance pay arrangements would it use, and how much can it afford? At what point should the institution consider closing?

The pessimistic ring to these questions reflects the prevailing themes in the current literature on enrollment and personnel demand for the 1980s. One of our thoughts is that economic and demographic trends affect institutions differently: some face serious retrenchment, others may grow. The central point is that long-range personnel planning — whether in an institutional growth or contraction model — is far broader an issue than the problems created by the AADEA.

Higher educational institutions must view their personnel requirements as an aspect of planning in general. The quality of institutional services and the long-range vitality of the various personnel groups are central to the setting of planning objectives. Society itself has an interest in the preservation of vitality in higher education. At some point, if there is value to society in preserving a dynamic market for professorial talent and for researchers, the responsibility for achieving that market may have to be shared by institutions and the public. Expenditure control by institutions intent on balancing their budgets represents but one side of the planning equation. The development of adequate revenues is another essential ingredient in long-range planning for colleges and universities.

In this study, our focus has been primarily on issues that affect institutional costs. It is perhaps appropriate to close with a reference to revenue requirements. While revenue planning is generally seen as an institutional responsibility, the sum of existing revenue streams in higher education shows clearly that in publicly and privately controlled colleges and universities, revenues have increasingly come to depend on public funding and on public policy. It would be surprising if the anticipated enrollment crunch will not at some point give rise to a public policy debate on how to finance higher education.

The outcome of a future public policy debate cannot be anticipated in current institutional plans, but existing and changing policy will affect eventual outcomes. It is perhaps wise not to expect now more funding largesse than present policies make possible. At the same time, it may be premature to proceed on the expectation of unrelieved disaster. The AADEA certainly should not be blamed for all the problems which higher education has been facing all along and for which it and society may only be beginning to seek or find solutions.

Footnotes

1. James M. Mulanaphy, *Retirement Preparation in Higher Education*, Educational Research Division, TIAA-CREF, New York, N.Y., 1978.

   Carl V. Patton, *op. cit.*, pp. 76-82.

2. Patton, *op. cit.*, p. 76.

3. Mulanaphy, *op. cit.*, Chapter III and pp. 61H.

4. Corwin and Knepper, *op. cit.*, p. 31.

5. A. Palmer, "Flexible Age Retirement," Outline of Speakers' Remarks at the Darling/Paterson Conference for Business, Industry, and Education, Los Angeles, 1978. (Typewritten.)

Appendix I

SUMMARY OF SURVEY RESEARCH

This appendix includes information from two surveys, one conducted as a part of this study, and the other as part of a pilot study done on faculty attitudes toward retirement at a four-year liberal arts college. Responses to these two questionnaires provide the foundation for some of the material and views found in this monograph. We summarize the results here so that the reader may determine how we reached our conclusions.

The Study Project

Our survey started with telephone contacts with 84 institutions, from which we also received 43 follow-up written responses. The sample included 50 small, primarily liberal arts colleges, 33 universities, and one community college. Twenty of the schools are public and 64 are privately controlled. We talked to a variety of administrators — provosts, business managers, vice presidents, deans, and personnel directors. They answered most of our questions by telephone. In addition, we asked them to send us the following information: a copy of their early retirement incentive program (if any), age specific separations for last year, and the current staff age distribution. We also received some thoughtful comments concerning both the AADEA and our work. A summary of the results follows:

1. Retirement Ages

   Question: What are the mandatory retirement ages for faculty (F), non-faculty (NF), and administrators (a)?

TABLE 1 A
SUMMARY OF RETIREMENT AGES

Employee Class	65	66	68	70	Total
F	49	3	13	15	80
NF	63	2	2	13	80
A	56	3	8	13	80

The numbers in the grid refer to the number of schools in the survey, i.e., 49 schools give 65 as the mandatory retirement age for faculty.

While Table 1A clearly shows age 65 to be the most frequently named retirement age, it obscures an interesting phenomenon: 17 of the respondent schools maintain more than one retirement age for different classes of employees. Table 1B breaks down the information in Table 1A, and shows the different retirement age patterns of the schools. Most of the schools with different retirement ages for different employee classes have a higher retirement age for faculty. The last two schools listed, however, are exceptions.

TABLE 1 B
RETIREMENT AGES FOR FACULTY, NON-FACULTY, ADMINISTRATORS

Number of Schools	65	66	68	70
48	F,NF,A			
2		F,NF,A		
2			F,NF,A	
11				F,NF,A
1	NF	F,A		
5	NF		F,A	
1	NF			F,A
5	NF,A		F	
3	NF,A			F
1	F			NF,A
1			F,A	NF
80				

2. Retirement Plans.

Question: Are the retirement plan benefits different for academic and non-academic employees?

Seventy-eight schools answered this question. Of these 78, 37 (47%) have different benefit plans, and 41 (53%) have the same plans.

Question: Do you plan to reduce any benefit contributions to employees with extended service?

TABLE 2
BENEFIT REDUCTIONS FOR EXTENDED EMPLOYMENT

Answers	Public Schools Number	%	Private Schools Number	%
Yes	2	11	11	19
No	12	67	16	27
Uncertain*	4	22	32	54
	18	100	59	100

*Many were under study or awaiting government regulations, which at the time of the survey had not been published.

3. Early Retirement.

Question: Do you have an early retirement incentive program?

The 83 responses to this question do not fall neatly into "yes" and "no" categories. Twenty-seven schools (32%) do have early retirement incentive programs. (Some examples of early retirement plans of schools in our survey and others follow this summary.) Another 14 schools (17%) are planning such programs. The remaining 42 schools (51%) do not now have nor do they plan to have specific programs, but they do make special arrangements in many individual cases.

Question: What percentage of your staff retired early in the last year?

TABLE 3
EARLY RETIREMENTS

Answers %	Number of Schools
0	10
Less than 1	47
1-2	11
2-5	3
Don't know	11
Total	82

Question: To what do you attribute these early retirements?

TABLE 4
EARLY RETIREMENT REASONS

Answers	Number of times quoted
Voluntary	39
Health	20
Other interests	13
Dismissal	10
Other employment	7
Death	3

4. Staff Age Distribution

We asked each school in our survey to send us their current staff age distribution, and 39 schools complied with our request.

TABLE 5
SUMMARY OF 1978 STAFF AGE DISTRIBUTION
AGGREGATE

Age Group	Number	Age Group	Number
21-25	10,413	46-50	6,828
26-30	12,792	51-55	6,515
31-35	11,225	56-60	5,527
36-40	8,770	61-65	3,469
41-45	7,206	66-70 +	501

Total all ages = 73,246

5. Employee Evaluations

Question: Do you have now, or do you contemplate having in the future, a system of performance appraisals for all of your employees?

TABLE 6
PERFORMANCE APPRAISALS

Employee Class	Yes	No	Planned	Total
Faculty	32	30	15	77
Non-Faculty	44	18	15	77
Administration	31	31	15	77

The numbers in the grid refer to the number of schools. Similarly to the figures in Table 1, these figures disguise some variations within schools: 31 respondents have appraisals for one or two, but not for all three employee classes.

6. Retirement Counseling

Question: Do you have now, or plan to have in the future, a retirement counseling program?

The responses to this question are similar to the responses to the question on early retirement incentive programs (see number 3, first question). Here 81 responses break down in the following way: 20 schools (25%), yes; 42 schools (52%), no; 19 schools (23%), planning.

7. Comments

Question: How do you view the age-70 retirement legislation?

The following comments are representative of the array of responses we got from administrators at a variety of colleges and universities.

Provost, small mid-western college: *"It will increase the age of the faculty while simultaneously decreasing its effectiveness. And, it will increase the expense for faculty salaries. We can adjust but it will be at a substantial price."*

Business Manager and Treasurer, small western college: *"We have no idea what it means now."*

Director of Employee Benefits, small eastern college: *"Higher education will lose five years of Ph.D.'s."*

Vice President for Business, small southern university: *"...not good legislation. It places the burden on the employer to show cause for separations."*

Vice President for Administration, small southern university: *"We just don't know what is required of us."*

Vice President for Business and Finance, small southern college: *"...a bit concerned because it stops the promotion of younger faculty."*

Dean of Faculty, major eastern university: *"We think we ought to set our own retirement age."*

Payroll Benefits Manager, large southern university: *"I favor it. A lot of very good talent has been forced to retire."*

Director of Personnel, small mid-western university: *"It has been our experience, particularly with faculty, that they will prefer to continue as long as possible. In a research oriented institution, this could prove devastating."*

Comptroller, small mid-western college: *"I hadn't thought about it."*

Dean of Business Affairs, eastern community college: *"Age-70 legislation will not impact our school until about 1998 when most of our tenured faculty will be near or at 70."*

Business Manager, small mid-western college: *"Frankly, we look forward to studies like yours to reveal to us some of the administrative and planning adjustments we might have to make in connection with Age 70 legislation."*

8. Incentive Early Retirement Plans

Our interest in IERt prompted us to conduct a more thorough investigation of IERt plans than our original survey produced. We contacted 24 schools — some from our survey, and others we knew had plans — to get an idea of the range of benefits currently offered. The 24 schools include large and small, public and private institutions; they are located throughout the country. Table 7 summarizes the provisions of the IERt plans. Unfortunately, our table cannot capture all the details of these often complex arrangements.

IERt is a recent development among our sample schools: none of the schools adopted its plan before 1970, and 62 percent started IERt in the last three years. The schools surveyed use one or more of four eligibility criteria — age, years of service, years of participation in a retirement plan, and employment status. Some combination of the first three is fairly common, and age 62 stands out as the most frequently used single age criterion. One-quarter of the plans are available to all employees, one-quarter are for faculty and professional staff only, and one-half are exclusively for faculty.

TABLE 7A
ILLUSTRATIONS OF EARLY RETIREMENT PLANS - ELIGIBILITY

Institution	Age	Service	Status
A	62		Faculty
B	60	20 years full time, may renegotiate to start sooner	Full-time faculty and professional staff. May be rejected if ERt not in best interest
C	60 or 62	15 years	Faculty and officers
D	62	--	Full-time faculty and exempt staff
E	62	--	Faculty with tenure before 1971/1972
F	60	5 years under T/C	Faculty
G	55	15 years full time	Faculty, administration staff
H	57	16 years full time	Full or associate professor
I	1) 62	--	Faculty and administration
	2) 58	20 years	Faculty
J	62	--	Faculty and staff
K	1) 55	10 years in retirement plan	Faculty and staff
	2) 60	20 years employment 10 years in retirement plan	Faculty and staff
L	62	--	Faculty
M	62, 63, 64	20 years	Faculty and administration
N	62, 63, 64	--	Tenured faculty
O	62	12 years continuous	Full-time faculty
P	60 or 62	15 years full time (3-5 years prior to normal retirement)	Faculty
Q	62	Participation in retirement plan prior to 1963	Staff
R	55	10 years	Faculty and administration
S	65	20 years employment. 18 years in retirement plan	Staff
T	62	--	Faculty
U	60	10 years	Faculty
	55	15 years	Faculty
V	60	15 years	Faculty

TABLE 7B
ILLUSTRATIONS OF EARLY RETIREMENT PLANS - BENEFITS

Institution	Salary Received	Pension Received	Premium Payments	Hospitalization Payments	Life Insurance
A	--	Single life annuity at "normal retirement" level	Continued by college until age 65	College pays single coverage	--
B	--	40% of last year's base	Continued by college on last year's base until age 65	College pays single coverage	College provides 50% of any assured payout
C	60-70% of last base, or 45% + 1% for each year service	--	Continued by college at 16%	Continue	Continue

Institution	Salary Received	Pension Received	Premium Payments	Hospitalization Payments	Life Insurance
D	--	Equal to benefit at age 65, depending upon college's resources	Continued by college	Continue	Continue
E	--	Generally smaller	Contributions by college and participant	--	--
F	50%	--	Same as before ERt	--	--
G	Pro-rata salary at a % of FTE. Supplemental stipend	--	Continued by college	Continued group coverage	Continued group coverage
H	% of last FT salary based on years of service (40-50%)	None	Continued by college, same as last base year	College continues hospitalization & major medical	Discontinued
I 1)	Severance payment at ⅓ pre-retirement 5-year average. Paid once/year	Annuity payments determined by carrier	None	Contributions by college and participant	Continued. Based on twice the average of last 5 yrs.
2)	Severance payment at 45% current salary, annual adjustment. Paid monthly	Annuity payments determined by carrier	None	Continues	Continues
J	--	Full amount available based on 10-yr contribution plan	University payments stop at ERt	60-40 sharing	University pays for $10,000 policy
K 1)	--	Depends on contributions, earnings, age	None	Continue	Continue
2)	--	Supplemental benefit plus basic retirement (above)	None	Continue	Continue
L	--	⅓ annual salary plus ⅓ total of previous 2 payments from special fund. May opt for T/C retirement income	None	Continue	Continue
M	--	40% of last salary; may elect to begin T/C retirement income	College pays 10% if retiree has not elected early payments	Continue	Continue
N	50%	Applicable retirement benefits during ERt, then full retirement benefits at age 65 with no salary.			
O	--	⅓ of 3 year average salary adjusted by annual % increase	Continue	Continue	Continue

Institution	Salary Received	Pension Received	Premium Payments	Hospitalization Payments	Life Insurance
P	--	45% of base salary + 1% for each year of service to max. of 30 years or 75% adjusted by 3% annually	Continue on basis of previous salary with increases	Continue	Continue
Q	--	25-50% of last 5 years average salary (based on years of service)	None.	Employee can continue payments for group coverage	Terminates unless converted
R	--	Same as normal retirement. (Both parties accelerate payments in advance.)	None	Continue	Continue
S	--	Same as age 70 benefit	Continue	--	Changes to $1,000 paid up
T	--	Close to normal retirement benefit	None	Continue	Not paid
U	35-60% of last salary, depending on age. One-time lERt payment	Based on defined benefits formula	None	Continue to age 65	Continue
V	40%	--	Continue based on full salary	Continue based on full salary	Continue based on full salary

The Pilot Attitude Survey

A questionnaire was sent to 189 members of the faculty and administration of a four year liberal arts college. Table 8 summarizes by gender, position, tenure status, and age the characteristics of both the recipients of and the respondents to the questionnaire. Those administrators who also carry faculty status are counted in the administration column. The bottom row of Table 8 shows the percentages of return in each category. These percentages increase sharply across the age groups — from 29% in the 40 and under group to 86% in the 60 and older group. This result should come as no surprise since we should expect interest in retirement issues to increase with age.

TABLE 8

CHARACTERISTICS OF RECIPIENTS AND RESPONDENTS

		Gender		Position		Tenure		Age			
	Total	M	F	Fac.	Adm.	Ten.	Non	-40	40+	50+	60+
No. Sent	189	151	38	143	46	74	69	90	54	31	14
No. Return	82	70	12	63	19	46	17	26	21	23	12
% Return	43%	46%	32%	44%	41%	62%	25%	29%	39%	74%	86%

All of the percentages reported in this survey represent a modest return from a relatively small sample. In spite of the small sample and the relatively modest return the subtotals of most groupings probably provide a sufficient sample to serve as a useful pilot study. We intend the results to be used for illustrative purposes only.

Three of the survey questions focus on the issue of retirement age. The case institution's pre-AADEA mandatory retirement ages are 65 for administrators, and 68 for faculty members. The responses to the *planned* retirement age question may reflect this policy: no one currently age 40 or older plans to retire at age 70 or later, and faculty members plan to retire later than administrators. Table 9 provides the details on all the retirement age questions. The numbers in each column are percentages; columns may not total to 100 because of rounding.

TABLE 9
RETIREMENT AGE QUESTIONS

			Gender		Position			Tenure		Age			
Question	Answers	Total	M	F	FAC	ADM		TEN	NON	-40	40+	50+	60+
What Is Your Planned Retirement Age?	70+	4	3	8	5	0		0	18	12	0	0	0
	67-69	27	29	17	33	5		39	18	8	38	30	38
	64-66	59	61	33	52	73		55	47	68	48	61	54
	-63	10	7	41	11	22		6	17	12	15	9	7
	Total	100	100	99	101	100		100	100	100	101	100	99
At What Age Would You *Prefer* To Retire?	70+	10	12	0	11	5		11	12	12	5	9	15
	67-69	4	4	0	3	5		4	0	0	0	4	15
	64-66	26	26	25	25	26		24	24	28	19	30	31
	-63	60	58	75	60	64		61	64	60	76	56	38
	Total	100	100	100	99	100		100	100	100	100	99	99
If The Mandatory Age Were 70 When Would You Plan To Retire?	70+	21	23	8	25	5		22	35	28	24	9	23
	67-69	11	11	8	14	0		17	6	0	14	17	15
	64-66	43	43	42	41	47		50	18	36	38	48	54
	-63	19	16	41	17	26		18	6	28	20	17	7
	No Response	6	7	0	2	22		0	35	8	4	8	0
	Total	100	100	99	99	100		100	100	100	100	99	99

A comparison of the responses to these three questions shows some interesting discrepancies. While only 4 percent of all respondents say they plan to retire at age 70 or beyond, and 10 percent say they would prefer to retire then, 21 percent say they would retire then if the mandatory retirement were 70. The difference between the latter two figures (21% versus 10%) suggests that if they are allowed to do so some faculty members may stay to age 70, regardless of their preference.

Responses in the lower range of the retirement age spectrum show a similar pattern. A full 60 percent report they would *prefer* to retire before age 63 compared to only 10 percent who *plan* to retire that early. The phenomenon is the same as above: people plan to work longer than they prefer. The next questions try to resolve this paradox.

Table 10 displays the responses to the set of early retirement questions. Responses to the last two questions in the table are given only by total and by age because no interesting differences occur in the other categories.

TABLE 10
EARLY RETIREMENT QUESTIONS

			Gender		Position			Tenure		Age			
Question	Answers	Total	M	F	FAC	ADM		TEN	NON	-40	40+	50+	60+
If Assured Part-time Employment Would You Retire Early	Yes	40	37	58	38	47		28	65	52	43	43	7
	Perhaps	34	36	25	35	32		41	18	28	43	35	31
	Prob. No	21	23	8	22	16		24	18	20	14	17	38
	No	5	4	8	5	5		7	0	0	0	4	23
	Total	100	100	99	100	100		100	101	100	100	99	99

Question	Answers	Total	Gender M	Gender F	Position FAC	Position ADM	Tenure TEN	Tenure NON	Age -40	Age 40+	Age 50+	Age 60+
If Given	Yes	51	51	50	56	37	44	59	52	57	52	38
Regular	Perhaps	32	30	42	33	26	35	29	32	29	30	38
Retirement	Prob. No	11	11	8	10	16	11	6	12	14	9	7
Age Pension	No. Resp.	6	8	0	0	21	10	6	4	0	9	17
Would You Retire Early?	Total	100	100	100	99	100	100	100	100	100	100	100
What Would Allow You To Retire Early?	Adequate Income	66							72	91	61	22
	OA/NR/NA*	34							28	9	39	78
	Total	100							100	100	100	100
What Are Major Reasons For Retiring Early?	Other Productive Work	25							20	19	44	7
	Retire While Healthy	15							8	14	17	23
	Leisure Time	5							8	5	4	0
	Make Room For Others	5							0	5	9	7
	OA/NR/NA*	50							64	57	26	63
	Total	100							100	100	100	100

*Other answer, no response, not applicable.

The responses to the early retirement questions suggest that retirement income is the major ingredient in the decision of those who plan to work longer than they would prefer. Forty percent of the respondents say they would retire early if assured of part-time employment. 51 percent say they would retire early if given their regular retirement age pension, and 66 percent name adequate income as conditional to their early retirement (also see Table 12 below; 46 percent name inadequate income as what they fear most in retirement).

The distribution of responses of those citing adequate income as a condition for early retirement is noteworthy: persons under age 50 express the concern more frequently than persons over age 50. Differences in responses across age groups also occur in the reasons for wanting to retire early. The desire to retire while healthy increases with age, and the desire to continue productive professional work is more common among those under age 60 than those over age 60.

The next set of questions deal with retirement income. Table 11 shows the results. Note that the responses to the third question do not total to 100% because respondents name more than one source of retirement income.

TABLE 11
RETIREMENT INCOME QUESTIONS

Question	Answers	Total	Age -40	Age 40+	Age 50+	Age 60+
Estimate Your	91-100%	7	16	5	4	0
Retirement Income	71- 90%	21	28	29	4	23
As A Percent of	51- 70%	29	20	33	39	23
Pre-Retirement	50% or less	31	28	15	39	45
Income	No Response	12	8	18	14	9
	Total	100	100	100	100	100

Question	Answers	Total	Age -40	40+	50+	60+
What Percent of Pre-Retirement Income Would You Need for A "Comfortable" Retirement?	91-100%	12	24	10	0	15
	71- 90%	43	48	48	43	23
	51- 70%	26	20	24	35	23
	50% or less	10	4	10	4	31
	No Response	9	4	8	18	8
	Total	100	100	100	100	100
What Sources of Income Do You Expect To Have During Retirement?	Social Sec.	100	100	100	100	100
	TIAA/CREF	100	100	100	100	100
	Other Pension	33	24	24	39	54
	Income Producing Work	24	32	24	17	23
	Interest and/or Dividends	46	44	57	43	38
	Rents and/or Royalties	16	32	10	4	15

The estimates of retirement income as a percentage of preretirement income vary with age. Only seven percent of the total sample, and none of the respondents over 60 expect 100% of their previous income during retirement, yet 16% of the respondents under 40 have such expectations. While 45 percent of the age 60 and older group expect a retirement income of 50 percent or less of their preretirement income, only 31 percent of the same group thinks they can retire "comfortably" at that income level. This same discrepancy exists for all age groups, especially for those 50 and older (39% versus 4%), and is another illustration of retirement income fears. The answers also suggest that knowledge concerning future retirement income may be both uneven and imperfect among respondents.

The final questions concern retirement anticipation. Table 12 summarizes the responses. The results show that expectations concerning what will be enjoyable in retirement do not change with age. The responses in all four age groups rank hobbies and travel first, research and study second, and freedom from responsibilities third. Apprehensions about illness and inadequate income rank high in all age groups as well. Boredom and a concern about losing meaningful professional contacts is a significant concern of the youngest age group, but this concern decreases with age.

TABLE 12
RETIREMENT ANTICIPATION QUESTIONS

Question	Answer	Tot.	Age -40	40+	50+	60+
What Do You Look Forward To With Most Pleasure in Retirement?	Hobbies & Travel	63	60	71	61	62
	Research/Study	39	36	48	45	23
	Freedom From Responsibilities	21	20	14	26	23
	Service to Community	5	8	0	9	0
What Do You Look Forward To With The Most Apprehension in Retirement?	Illness	38	16	52	44	46
	Inadequate Income	46	56	48	30	53
	Boredom/Loss of Meaningful Contacts and Activities	37	52	38	35	7

Appendix II

CONSEQUENCES OF POSTPONED RETIREMENT

The tables in this Appendix relate to a problem disucssed in Chapter Three, and expand upon the information contained in Table A and C (pp. 23 and 25 in the text).

TABLE 1

EFFECT OF INFLATION ON THE PURCHASING POWER OF $10,000 OF ANNUITY INCOME VARIOUS RATES

Number of Years	Age	Inflation Rates 7%	6%	5%	4%	3%
0	65	$10,000	$10,000	$10,000	$10,000	$10,000
1	66	9,300	9,400	9,500	9,600	9,700
2	67	8,649	8,836	9,025	9,216	9,409
3	68	8,044	8,306	8,574	8,847	9,127
4	69	7,481	7,807	8,145	8,493	8,853
5	70	6,957	7,339	7,738	8,154	8,587
6	71	6,470	6,899	7,351	7,828	8,330
7	72	6,017	6,485	6,983	7,514	8,080
8	73	5,596	6,096	6,634	7,214	7,837
9	74	5,204	5,730	6,302	6,925	7,602
10	75	4,840	5,386	5,987	6,648	7,374
15	80	3,367	3,953	4,633	5,421	6,333
20	85	2,342	2,901	3,585	4,420	5,438
25	90	1,630	2,129	2,774	3,604	4,670

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TABLE 2

EFFECT OF POSTPONED RETIREMENT ON ANNUAL RETIREMENT INCOME

2-A

Effect on The Size of Annual TIAA Annuities
With and Without Additional Premium Contributions*

	62	65	68	70
1. $20,000 accumulation**				
a. Without premium	$ 2,276	$ 2,850	$ 3,604	$ 4,238
With premium based on:				
b. $10,000 salary	2,276	3,229	4,486	5,639
c. $20,000 salary	2,276	3,608	5,368	6,860
2. $60,000 accumulation				
a. Without premium	$ 6,828	$ 8,550	$10,812	$12,714
With premium based on:				
b. $10,000 salary	6,828	8,929	11,694	14,025
c. $20,000 salary	6,828	9,308	12,576	15,336
d. $30,000 salary	6,828	9,687	13,458	16,647
3. $100,000 accumulation				
a. Without premium	$11,380	$14,250	$18,020	$21,190
With premium based on:				
b. $10,000 salary	11,380	14,629	18,902	22,501
c. $20,000 salary	11,380	15,008	19,784	23,812
d. $30,000 salary	11,380	15,387	20,666	25,123

*Premium contributions are equal to 10 percent of a constant salary from the 62nd birthday to the retirement-age birthday. The projections assume a dividend rate of 6 percent during the accumulation period and 9 percent during the payout period, and an expense factor of 3.5 percent of premium during the accumulation period.

**All accumulations are at age 62.

B-B

Increases in Annual Retirement Income Resulting From Postponed Retirement

	62-65	62-68	62-70	65-68	65-70	68-70
1. $20,000 accumulation						
a. Without premium	$ 574	$1,328	$1,962	$ 754	$1,388	$ 634
With premium based on:						
b. $10,000 salary	953	2,210	3,363	1,257	2,410	1,153
c. $20,000 salary	1,332	3,092	4,584	1,760	3,252	1,492
2. $60,000 accumulation						
a. Without premium	$1,722	$3,984	$5,886	$2,262	$4,164	$1,902
With premium based on:						
b. $10,000 salary	2,101	4,866	7,187	2,765	5,096	2,331
c. $20,000 salary	2,480	5,748	8,508	3,268	6,028	2,760
d. $30,000 salary	2,859	6,630	9,819	3,771	6,960	3,189
3. $100,000 accumulation						
a. Without premium	$2,870	$6,640	$9,810	$3,770	$6,940	$3,170
With premium based on:						
b. $10,000 salary	3,249	7,522	11,121	4,273	7,872	3,599
c. $20,000 salary	3,628	8,404	12,432	4,776	8,804	4,028
d. $30,000 salary	4,007	9,286	13,743	5,279	9,736	4,457

2-C

Percentage Changes in Annual Retirement Income
Resulting from Postponed Retirement

	62-65	62-68	62-70	65-68	65-70	68-70
1. $20,000 accumulation						
a. Without premium	25.2%	58.3%	88.2%	28.5%	48.7%	17.6%
With premium based on:						
b. $10,000 salary	41.9	97.1	147.8	38.9	74.6	25.7
c. $20,000 salary	58.5	135.9	201.4	48.8	90.1	27.8
2. $60,000 accumulation						
a. Without premium	25.2	58.3	88.2	28.5	48.7	17.6
With premium based on:						
b. $10,000 salary	30.8	71.3	105.4	31.0	57.1	19.9
c. $20,000 salary	36.3	84.2	124.6	35.1	64.8	21.9
d. $30,000 salary	41.9	97.1	143.8	38.9	71.8	23.7
3. $100,000 accumulation						
a. Without premium	25.2	58.3	88.2	28.5	48.7	17.6
With premium based on:						
b. $10,000 salary	28.6	66.1	97.7	29.2	53.8	19.0
c. $20,000 salary	31.8	73.8	109.2	31.8	58.7	20.4
d. $30,000 salary	35.2	81.6	120.8	34.3	63.3	21.6

E-D

Effect on Annual Social Security Income
Old and New Laws*

	62	65	68	70
Old Law	$4,052	$6,857	$9,257	$11,148
New Law	4,669	6,717	8,703	10,506

Increases in Annual Social Security Income
Resulting from Postponed Retirement

	62-65	62-68	62-70	65-68	65-70	68-70
Old Law	$2,805	$5,205	$7,096	$2,400	$4,291	$1,891
New Law	2,048	4,034	5,837	1,986	3,789	1,803

Percentage Change in Annual Social Security Income
Resulting from Postponed Retirement

	62-65	62-68	62-70	65-68	65-70	68-70
Old Law	69.2	128.5	175.1	35.0	62.6	20.4
New Law	43.9	86.4	125.0	29.6	56.4	20.7

*The old law applies to individuals who reach age 65 before 1982, even if they postpone retirement to 1982 or later. The Social Security illustration assumes maximum taxable salary earned in each year of postponed retirement.

Appendix III

ENROLLMENT CHANGES, DECLINING FACULTY DEMAND, NORMAL STAFF ATTRITION, AND AGGREGATE INSTITUTIONAL COST BOUNDARIES FOR FINANCING INCENTIVE EARLY RETIREMENT

The concern about enrollment trends and the fear that the AADEA may help drive down the demand for new faculty and other personnel are both well publicized. We therefore decided at the inception of this study to give some attention to the following questions:

a. What are the prospects for senior staff retirements in higher education institutions during the 1980s?

b. Under what conditions would the postponement of retirements cause a decline or even a drying up of new hiring?

c. Can the speeding up of retirements contribute to a significant lessening of the pressure on faculty demand?

d. How can institutions determine the upper boundary of available resources for financing incentives for early retirement?

This section of the Appendix sketches some answers to the above questions which may be of interest to colleges and universities to whom planning in this area is relatively new.

1. The Corwin-Knepper and Fernandez Demand Forecasts

According to Corwin and Knepper, *the AADEA will cause the demand for new faculty to decline to zero* from 1983 through 1988. Theirs is probably the most pessimistic of all the recent forecasts. Fernandez, while anticipating significant reductions in new Ph.D. demand between 1982 and 1995, obtains considerably less alarming results. Tables 1 and 2 below summarize the findings.

TABLE 1
PROJECTIONS OF FULL-TIME Ph.D. FACULTY DEMAND
(000 Dropped)

	Fernandez			Corwin and Knepper	
Year	(1)	(2)	(3)	(4)	(5)
1982	210.1	204.1	214.7	466.0	464.7
1983	209.1	202.3	214.3	463.8	462.2
1984	207.2	199.6	213.0	458.9	461.1
1985	203.3	195.0	209.6	450.0	456.2
1986	199.8	190.9	206.7	440.8	450.7
1987	198.6	198.9	206.0	438.4	446.7
1988	199.0	188.5	207.1	439.9	440.9
1989	200.8	189.4	209.6	442.0	442.0
1990	198.2	186.1	207.4	437.3	437.1
1991	193.6	181.0	203.2		
1992	189.7	176.5	199.7		
1993	187.6	173.8	198.1		
1994	186.9	172.5	198.0		
1995	185.8	170.6	197.3		

(1) Baseline.
(2) Pro-Cyclical, constant student-faculty ratio.
(3) Counter-Cyclical, student-faculty ratio increases and decreases.
(4) Assumes age 65 mandatory retirement.
(5) Assumes age 70 mandatory retirement.

TABLE 2
PROJECTIONS OF NEW FACULTY HIRES

	Fernandez			Corwin and Knepper	
Year	(1)	(2)	(3)	(4)	(5)
1982	9,294	7,974	10,307	7,900	8,800
1983	7,790	6,427	8,834	4,000	-0-
1984	7,197	5,779	8,284	1,100	-0-
1985	5,609	4,179	6,703	-0-	-0-
1986	5,661	4,206	6,776	-0-	-0-
1987	7,315	5,793	8,478	4,300	-0-
1988	8,852	7,267	10,065	7,600	-0-
1989	10,170	8,533	11,421	10,100	3,800
1990	5,817	4,473	6,500	2,700	6,500
1991	3,351	2,235	4,206		
1992	3,542	2,483	4,353		
1993	5,073	3,977	5,915		
1994	6,473	5,334	7,340		
1995	5,960	4,935	6,747		

(1) Baseline
(2) Pro-Cyclical, constant student-faculty ratio.
(3) Counter-Cyclical, student faculty-ratio increases and decreases.
(4) Assumes age 65 mandatory retirement.
(5) Assumes age 70 mandatory retirement.

These aggregates cannot tell us what will happen to individual institutions, but we can reasonably expect that many institutions will experience enrollment declines and, as a result, may have to find ways of reducing both faculty and non-faculty personnel.

2. Long-Term Staff Attrition

An institution's normal long-term staff attrition is important information for estimating the size of personnel at some future time. More precisely, institutions might determine what their age-specific separation rates for different personnel groups have been over time. We obtained information regarding separations for four institutions, a group too small from which to generalize. But based on what we learned, we constructed an *hypothetical illustration* solely for the purposes of highlighting some of the steps in the planning process.

Simply put, the question concerning the extent of an institution's staff attrition is: given a specific number of faculty or other personnel of a certain age, how many members of the original group are still employed after a certain time has elapsed? Table 3 sets forth the hypothetical age-specific separation rates. These are broadly based on the evidence obtained from the four colleges who provided us with data, but the reader is admonished not to regard the rates as anything but illustrative numbers. We would expect for large samples a smoother series than is the case in our illustration.

TABLE 3
ATTRITION/RETENTION RATES

Age Interval	Attrition Rate	Retention Rate	Age Interval	Attrition Rate	Retention Rate
50-51	.010	.990	60-61	.053	.947
51-52	.010	.990	61-62	.053	.947
52-53	.010	.990	62-63	.053	.947
53-54	.010	.990	63-64	.053	.947
54-55	.010	.990	64-65	.053	.947
55-56	.025	.975	65-66	.265	.735
56-57	.025	.975	66-67	.265	.735
57-58	.025	.975	67-68	.265	.735
58-59	.025	.975	68-69	.265	.735
59-60	.025	.975	69-70 +	.265	.735

The illustration shows that the attrition rate is higher for the older cohorts. The retention rate (one minus the attrition rate) respresents the fraction of the cohort who remain after attrition: 99 percent of the 50 year olds stay until 51, and 73.5 percent of the 65 year olds stay until 66. Whether these rates are low or high when compared to experiences of others is a matter of conjecture. Institutions may find that their experiences are entirely different from this illustration. A problem at small institutions is that a small number of persons leaving may represent a high percentage of their cohort.

Table 4 displays four additional retention rates. Rate A comes directly from Table 3. Rates B and C reflect our subjective assumptions about how IERt programs might accelerate staff separations in the age 65 and older group. We calculate Rate D and E from two of Carl Patton's Faculty Age Projections models. Rate D assumes a normal retirement age of 65; Rate E, 70.

Patton's models project faculty compositions by five year age cohorts at five year intervals. Consequently, we calculated the retention rates only by cohorts, and converted our Rates A, B, and C to the same cohorts Patton uses in order to compare the figures. Table 4 shows all five retention rates on an annual basis.

TABLE 4
RETENTION RATES*

From	To	A	B	C	D	E
50-54	55-59	.984	.984	.984	.986	.986
55-59	60-64	.965	.965	.965	.896	.981
60-64	65-69	.876	.859	.836	.799	.981
65-69	70 +	.649	.521	.359	.400	.935
70 +	70 +	0	0	0	0	.674

A = Our Normal Attrition Rate (from Table 3)
B = Our Rate, Steeper Attrition in 65 + Group
C = Our Rate, Still Steeper in 65 + Group
D = Patton's Rate (age 65 Retirement)
E = Patton's Rate (age 70 Retirement)

Table 5 applies the retention rates of Table 3 to a 1979 university population age 50 and over provided by one of our general survey respondents. The purpose of the illustration is to describe first what a simple worksheet approach would look like. Second, by applying the separation rates to the data, we can calculate how many persons will remain at the institution year after year. If we are interested in the groups who will remain from ages 66 and 70, the data can give us a complete projection through 1995.

TABLE 5
STAFF REMAINING EACH YEAR AT SAMPLE UNIVERSITY
TABLE 3 RETENTION RATE APPLIED TO
1979 AGE DISTRIBUTION

AGE	1979	'80	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95
70	0	1	1	1	1	3	6	5	8	7	6	7	7	7	7	6	7
69	1	1	1	2	5	8	6	11	10	8	9	9	9	10	8	9	10
68	1	2	3	6	10	8	15	13	11	12	12	12	14	11	12	13	4
67	3	4	9	14	11	20	18	14	16	16	17	19	15	17	18	6	18
66	5	12	19	15	27	24	20	22	22	23	26	21	23	25	8	24	20
65	16	26	21	37	33	27	30	30	31	36	28	31	34	11	32	27	
64	27	22	39	35	28	31	31	33	38	30	33	35	12	34	29		
63	23	41	37	30	33	33	35	40	31	35	37	13	36	31			
62	43	39	31	35	35	37	42	33	37	39	13	38	32				
61	41	33	37	37	39	45	35	39	42	14	40	34					
60	35	39	39	41	47	37	41	44	15	42	36						
59	40	40	42	48	38	42	45	16	43	37							
58	41	43	49	39	43	46	16	45	38								
57	44	51	40	44	48	17	46	39									
56	52	41	45	49	17	47	40										
55	42	47	50	17	48	41											
54	47	50	18	49	41												
53	51	18	49	42													
52	18	50	42														
51	50	43															
50	43																
66+	10	20	33	38	54	63	65	65	67	66	70	68	68	70	53	58	59

Let us assume, for the sake of illustration, that the age-specific separation rates used are at least not overstating staff attrition. Table 5 informs us that the number of senior staff affected most immediately by the AADEA (age 66 and older) increases by almost 500 percent between 1979 and 1995. The sample institution provided figures for all personnel; proper planning should include estimates of separation rates by appropriate staff classifications. Faculty members may on balance retire later than clerical and service workers (see Table D in Chapter Four). Another problem arises when we consider the possibility that future separation rates may be smaller than in the past if economic circumstances compel workers to stay on the job longer than they would prefer.

All of the fine points of the argument aside, the illustration makes clear that the AADEA can indeed have a significant impact on an individual institution. Unless staff attrition increases markedly in excess of the numbers used in the illustration, the sample university will experience a notable aging of its staff (if we assume that the total number of personnel remains constant or that it may decrease).

This particular illustration is useful because it points out that in the planning of new hiring and personnel policies the focus must be on the total personnel structure. While the illustration stops with 50 year old employees in 1979 and thus is incomplete, it calls attention to what happens to attrition between ages 50 and 65. The reason why so many persons remain after age 65 must be found in the separation rates assumed earlier in the projection! The low attrition between ages 50 and 65 creates the problem.

For instance, take the 55 year old cohort in 1979 and track it through 1994. The overall attrition between 1979 and 1994 amounts to 85.7 percent; and between 1989 and 1994 comes to 75 percent. But between 1979 and 1989, the attrition is only 33 percent. Thus if we want to reduce the number of persons age 66 and over it may be necessary not only to focus on how the voluntary retirement of older personnel might be increased, but on how soon prior to age 65 staff separation rates can be boosted without damage to the institution.

3. Enrollment Trends, Staff Attrition, and Prospects for New Hires

In order to estimate the prospects for new staff hires at some future point, institutions must combine estimates of future enrollments with estimates of long-range staff attrition. Table 6 illustrates the effects on hiring and layoffs when we assume a constant student-to-staff ratio and three different age-specific separation rates. The key variable in the illustration is the enrollment decline averaging 1.7 percent per year.

TABLE 6

EFFECT ON HIRES (OR LAYOFFS) UNDER ENROLLMENT REDUCTION WITH CONSTANT STUDENT-STAFF RATIO*

Year	Staff Required	Reduction Required	Separations **			Hires (Layoffs)		
			A	B	C	A	B	C
1979	2,121							
1980	2,085	36	20	22	24	(16)	(14)	(12)
1981	2,049	36	31	31	35	(5)	(5)	(1)
1982	2,015	34	31	33	32	(3)	(1)	(2)
1983	1,980	35	37	40	39	2	5	4
1984	1,947	33	38	41	45	5	8	12
1985	1,914	33	40	45	44	7	12	11
1986	1,881	33	42	41	43	9	8	10
1987	1,849	32	42	45	43	10	13	11
1988	1,815	31	43	41	41	12	10	10
1989	1,787	31	39	42	43	8	11	12
1990	1,756	31	38	39	39	7	8	8
1991	1,726	30	37	37	37	7	7	7
1992	1,697	29	36	36	36	7	7	7
1993	1,668	29	32	32	30	3	3	1
1994	1,640	28	29	29	28	1	1	0

*Enrollment reduction = 1.7% per year
Student - staff ratio = 14/1

**Separations are based on our three hypothetical rates.

Significant enrollment reductions will require a decrease in personnel, particularly in the areas where staffing is sensitive to enrollment changes. This is the case most directly in the faculty component. Table 6 indicates that total personnel must be reduced each year. If normal staff separations are equal to or exceed the number of required reductions, no additional layoffs need to be planned. But if the former are below the required staff reduction numbers, additional layoffs must occur. In the illustration this happens during the first three years; in the Corwin and Knepper estimates the problem arises later and lasts longer. Fernandez' figures (Table 2) have similarities with data past 1983 in Table 6. Significant throughout Table 6 is the relatively small number of new hires, given the size of the staff in question. And in particular, the number of new hires is so small that staff vitality might be impaired. Of course, all of this is purely illustrative and hypothetical: each institution must determine what its enrollment projections (and plans) require in the face of its particular experience with staff separations.

4. Estimating Cost and Resources Boundaries for Investments in Incentive Early Retirement and Other Programs Designed to Accelerate the Rate of Staff Attrition

The financial consequences of the AADEA are very difficult to define in the absence of model descriptions of an institution's future staffing structure and requirements. Chapter Three describes some of the points of view that tend to influence one's perceptions about future cost impacts. In what follows we start from the premise that we are not concerned with the "transition" phase from a pre-AADEA to the post-AADEA era, and that institutions will think of a 68 year old worker for budgeting purposes in the same way they would view a 55 or 43 year old employee: until retirement can be required, or until there is cause for dismissal, the employee is part of the budget and his or her compensation is not available as a trade-off against either budget reduction, new hiring, or some other substitution. In other words, the compensation

dollars for a 68 year old employee remain a part of the budget under post-AADEA conditions unless the employee is fired or quits voluntarily before he or she must retire.

Other things being equal, this means that in principle the total compensation expense of the 68 year old worker is available as a potential investment in a program designed to induce this worker to retire voluntarily at some earlier time than would otherwise be the case. If the institution has a choice either to keep the worker on the payroll or to pay an inducement for voluntary early or phased retirement, investing in the inducement is affordable if the latter does not cost more annually than the cost of total compensation should the worker stay on the payroll.

Two considerations may be worth mentioning. First, other things do not remain equal. Institutions which lose enrollments also lose revenues, and normally the revenue declines brought about by enrollment decreases require budget retrenchment in excess of the expenditure reductions that flow directly and normally from the decline in the number of students. Second, any program designed to induce certain individuals to retire sooner than they have planned may result in payments to employees who would have retired voluntarily without the inducement. But it is impossible to know in advance which persons fit into which category. Thus, institutions must take into account this risk factor. Furthermore, to speak of specific cost constraints without a fairly detailed comprehensive plan embracing personnel requirements and policy as well as institutional finance is pointless. What follows, then, is only a small portion of the answer to the question of the upper boundary of available resources.

One of the institutions in our sample has supplied precise 1978-79 figures for their faculty age 50 and older, including salaries and total compensation for each person in the sample. Table 7 summarizes some of the basic information for a particular incentive plan inducing employees to retire early, in this instance at least through a form of phased retirement.

TABLE 7
IERt COSTS AND SAVINGS

Year	(1) IERt Program Costs	+	(2) Comp. Costs Remain. Fac.	=	(3) Total Costs	(4) Comp. Costs w/o IERt	(5) Savings (4-3)
1981	$ -0-		$ 874,880		$ 874,880	$ 874,880	$ -0-
1982	14,650		840,576		855,226	874,880	19,654
1983	15,456		840,576		856,032	874,880	18,848
1984	25,031		819,814		844,845	874,880	30,035
1985	72,908		709,027		781,935	874,880	92,945
1986	134,468		571,954		706,422	874,880	168,458
1987	132,516		548,328		680,844	840,576	159,732
1988	181,130		449,711		630,841	840,576	209,735
1989	203,889		392,808		596,697	819,814	223,117
1990	174,804		344,045		518,849	709,027	190.178
1991	133,052		287,374		420,426	571,954	151,528
1992	158,012		214,696		372,708	548,328	175,620
1993	134,294		163,312		297,606	449,711	152,105
1994	133,976		106,280		240,256	392,808	152,552
1995	159,604		0		159,609	344,045	184,436
1996	137,216		0		137,216	287,374	150,158
1997	104,967		0		104,967	214,696	109,729
1998	82,509		0		82,509	163,312	80,803
1999	55,778		0		55,778	106,280	50,502
	$2,054,265		$7,163,361		$9,217,646	$11,537,781	$2,320,135

(1) Phased Retirement Program Costs
(2) Compensation Costs for Remaining Faculty
(3) Total Costs
(4) Compensation Costs Without an Incentive Program
(5) Savings

We have chosen a phased retirement option which, for contractually defined services, provides on the average the equivalent of 40 percent of the age 65 full-time salary, plus a 10 percent pension premium on the former total salary. In addition, a 5.5 percent escalator is built into the program both for the contractual salary and for the pension premium. (Participants in this program should be aware of potential tax implications.) Table 7 illustrates what the annual cost (column 1) of the program would be, assuming that every eligible person would take advantage of it following the 65th birthday. The total cost each year (column 3) is the sum of the incentive program plus the cost of those remaining but not yet eligible (column 2). This total cost is then compared to what the institution must budget (column 4), assuming all persons in the group would stay through age 70 without the inducement. The potential savings could amount to a maximum of $2,320,135 for the group over the entire period shown.

The risk that must be taken into account centers on the estimate the institution in question would make with respect to the normal staff separations which have not been factored into the calculation. If half of the staff in question would retire voluntarily or separate from the institution before reaching age 65, and if others would retire between ages 65 and 70, how many persons would remain and be eligible for the program, and what would the costs and savings amount to then?

Under the best of circumstances, institutions will be guessing, but if they have developed careful information on staff requirements on the one hand and of normal long range staff attrition on the other, they should be able to bring their cost estimates within acceptable levels. And if there exists within the institution a sound procedure for retirement planning and counseling, the information on what senior personnel may choose to do will be even more precise. Nevertheless, the mere existence of an incentive for full or partial early retirement will affect individual choices and may reduce voluntary separations in the years preceding eligibility for any incentive plan. Institutions may want to consider earlier than age 65 eligibiility thresholds for this and other reasons.

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